

# FINANCIAL TIMES

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World Business Newspaper <http://www.ft.com>

THURSDAY DECEMBER 11 1997

## WORLD NEWS

### Worries over Yeltsin's health hit Russia's fragile markets

Russia's fragile markets were shaken when the Kremlin announced that President Boris Yeltsin had an "acute respiratory viral infection" and would be in a sanatorium near Moscow for up to two weeks. Page 12

**Korea talks and with hope**  
The opening session of talks between North and South Korea and the US to produce a permanent peace settlement in the Korean peninsula has ended with agreement to meet again in Geneva next March. Editorial Comment, Page 11

**Danes forecast surplus**  
Danish economy minister Marianne Jelved predicted Denmark will have a surplus on both the current account and the government budget fiscal balance for the first time since 1993. Page 3

**Brussels copyright plans**  
The European Commission has unveiled its long-awaited draft directive to harmonise EU rules on copyright in the information society. Page 4

**French bank 35-hour week**  
France's leading government bank has approved a draft bill bringing in a 35-hour week for private companies with more than 20 staff in the year 2000. Page 3

**Santer rejects charges**  
European Commission president Jacques Santer rejected charges that Brussels under-estimated costs of EU enlargement in eastern Europe. Page 2; Editorial Comment, Page 11

**Mexico in EU talks**  
Mexico's trade minister Herminio Blanco said detailed talks with the EU on a free trade zone could start as early as March. Page 4

**Turkish PM wins vote**  
Turkey's PM Mesut Yilmaz has easily defeated a vote of no confidence, with the opposition falling 33 votes short of the 276 needed to topple him. Page 2

**Nuclear arms threat**  
Nuclear arms are likely to be used sooner or later unless they are eliminated, said a group of senior foreign policy figures who spent three years analysing international conflict. Page 5

**Serbs walk out of Bosnia talks**  
Serb leaders have walked out of an conference on Bosnia in a protest over Kosovo. Page 2

**Call for Ukraine reform**  
Ukraine's financial state is so bad that the government must reform or face economic collapse, reformist deputy PM Serhiy Tybypko said. Page 3

**Dublin ranks low for cars**  
Ireland's economy has outgrown the rest of Europe but the number of taxis has not kept pace, and a Dublin University study estimated the cost at more than £12m (£17m) a year. Page 2

**German party hit by ruling**  
Germany's Free Democratic Party, junior member of the ruling coalition, was hit when a court ordered it to repay DM10.5m (\$6.5m) of state aid. Page 2

**Argentina air safety 'deficient'**  
Safety in Argentina's airspace is "critically deficient" said Latin American and Caribbean airline pilots after a spate of near-misses this year. Page 5

**New Swiss president**  
Swiss foreign minister Flavio Cotti has been elected as the country's president for a one-year term from January. Page 2

**Pigeons settle out of court**  
The makers of Hollywood movie No Code of Conduct are paying to treat a flock of pigeons hurt by explosions during the filming.

## BUSINESS NEWS

### JP Morgan results signal blow to global earnings

J.P. Morgan, the US bank, warned that its fourth-quarter earnings would be lower than expected, adding fuel to fears about the impact of weak Asian markets on the profits of international banks and industrial companies. Page 13

**BoilSouth, the US regional**  
telecoms operator, is in talks with DtschTelekom about taking a stake in the German industrial conglomerate's fledgling telecoms operation. o.t.e.o. Page 17

**Frontline, the Bermuda-based**  
group, has mounted a legal challenge in Sweden to the \$300m merger between ICB Shipping of Sweden and Astro Tankers, the privately owned Greek shipping company. Frontline, behind a \$535.22bn (£410m) hostile bid for ICB, has argued that the deal flouts Swedish company law. Page 16

**Unified Energy Systems,**  
Russia's national electricity monopoly, is to sell 101 subsidiaries unrelated to its core business, including poultry farms and commercial banks. Page 14

**Corning, the US-based**  
manufacturer, said its consumer housewares division, which owns the Pyrex and Corning Ware brands, remains up for sale after AEA Investors, a private investment group, pulled its \$975m bid for the operation. Page 13

**General Motors is to buy 49 per cent**  
of Delta Motor, the vehicle assembler formed from a management buy-out of its South African subsidiary. Page 12

**Coopers & Lybrand, the Big Six**  
accountancy firm which is seeking a global merger with Price Waterhouse, has announced a 10 per cent increase in worldwide revenues to \$7.5bn for the year to September. Page 16

**Pearson, owner of the Financial Times,**  
Thomson, the Canadian media group, and Bridge Information Systems have expressed interest in a financial information business that could be sold by Primark for up to \$1bn. Page 13

**American International Group,**  
largest US insurer, said it has raised \$1.55bn for an infrastructure fund to invest in Asia. Page 14

**Tenneco, the US packaging**  
and automotive products group, saw its shares fall by almost 10 per cent yesterday after the company warned that its fourth-quarter profits would fall well below analysts' estimates. Page 14

**Sidex, Mexican tourism and real estate**  
conglomerate, has won the backing of most of its main creditors for a restructuring plan to liquidate \$1.3bn of assets. Page 14

**Tianjin Development Holdings,**  
investment arm of the Tianjin municipal government in China, saw its shares rise 24 per cent on their debut yesterday, signalling a possible revival of confidence in "red chips" in Hong Kong. Page 13

**Japan's financial watchdog**  
called for penalties to be imposed on Daiwa Securities and Nikko Securities, the country's second and third-largest brokers, over a recent racketeer scandal. Page 4

**Korean Development Bank,**  
which borrows on behalf of the government of South Korea, is to issue a \$2bn international bond to refinance emergency borrowings from the International Monetary Fund. Page 13; Editorial Comment, Page 11; Lex, Page 12

## Commission seeks delay on cattle materials ban

By Michael Smith in Brussels and Alison Maitland, George Parker and Maggie Urry in London

The European Commission yesterday decided to press for a three-month delay to a ban on the use of "specified risk material" from cattle in a range of industrial products including food and medicines.

At the same time the Commission's scientific advisory body called for a widening of its ban on the sale of some cattle, sheep and goat parts because of fears over the spread of BSE or "mad cow" disease.

The Commission's recommendation for the SRM ban to come into effect from April 1 rather than January 1 will be seen as a climbdown amid growing divisions between member states.

However, it was welcomed in the US. Washington has argued that the ban on such material puts billions of dollars of trade at risk because cattle derivatives, including tallow, are used in a wide range of products.

It believes the ban, which the commission decided to implement last July, with only partial backing from EU member countries, is not justified if applied to its cattle and has threatened a trade war.

The three month delay will intensify friction between EU member countries because some including Germany, Austria, Spain and Italy - argue that they

are BSE-free and should therefore be exempted. Such exemptions would be resisted by the UK and other countries with BSE.

The recommendation of the 16-member Scientific Steering Committee could end the sale of T-bone steaks across Europe and restrict the supply of lamb on the bone.

The committee said the intestines of cattle, sheep and goats of all ages, and the lungs, vertebral column and dorsal root ganglia - a cluster of nerves inside the column - of animals more than one year old should be added to the list of specified risk material "if they do not originate from a BSE-free country".

The move comes only a week after the UK government decided to ban sales of beef on the bone from Tuesday.

"This is bad news for the beef market," said Copa, the European farmers' organisation. It said consumption and prices would take another knock just as sales were recovering from the March 1996 crisis.

Beef on the bone accounts for 20-25 per cent of sales on the continent, compared with 5 per cent in the UK, said Costa Goldfids, livestock representative.

The ban on boned mutton was less worrying because most lamb sold on the bone was under 12 months old, he said.

However, in a footnote the

Continued on Page 12

## Générale des Eaux unit to buy 12 power plants

By Victoria Griffith in Boston and Andrew Giff in Paris

Sithe Energies, the US subsidiary of Générale des Eaux, the French utilities group, is to pay \$675m for 12 power plants belonging to Boston Edison, the Massachusetts electricity utility.

The sale of the Massachusetts and Maine plants is the first step towards state-mandated deregulation in the electricity sector.

For Boston Edison, the move is part of a strategy to focus on electricity transmission and customer service and withdraw from generation.

Sithe, 60 per cent owned by Générale des Eaux, said yesterday that it would invest another \$1bn to boost generating efficiency, dramatically expanding its US presence.

Separately, Générale de Chauffe, another subsidiary, of the French giant, agreed to pay FF430m (\$72m) for a 53 per cent stake in Moravskoslezke Tepelarny, the Czech utility - one of the largest combined heat and power companies in central Europe. The acquisition involves the Czech company, Independent Power.

Générale des Eaux has been transforming itself under its chairman, Jean-Marie Messier,

with the sale of non-core businesses such as Générale de Santé and Générale de Restauration. Acquisitions include a controlling stake in Havas, the French media group.

It has also been awarded the contract to manage two regional railway franchises in the UK. Last month, it expressed an interest in buying or running London Underground. Sithe said yesterday's deal was one of many it hoped to complete in the US over the next few years after deregulation.

The company operates 22 power plants in the US, including six each in New York State and California and four in Pennsylvania, Massachusetts and other US states are trying to cut the cost of electricity to consumers by introducing competition.

Boston Edison, under state legislation enacted last month, must achieve a 15 per cent rate reduction for all customers by September 1999. "This sale will help us do that," said Thomas

Sithe's \$1bn investment will include the installation of state-of-the-art generating equipment

Continued on Page 12  
Share sale, Page 16



Looking over their shoulders: Saudi delegates on the second day of the 8th summit of the Organisation of the Islamic Conference stand in front of a portrait of Ayatollah Khomeini, former Iranian leader and founder of the Islamic revolution. Iran and Arab states differ, Page 6

## IMF rescue fears trigger S Korea market turmoil

By John Burton in Seoul

South Korea's financial markets were in turmoil yesterday amid worries that the International Monetary Fund's \$57bn rescue package would be inadequate to meet the country's short-term debt obligations.

The Korean currency, the won, fell by its 10 per cent daily limit to a record low of 1,565.90 won to the dollar, while interest rates rose more than 50 basis points to a 16-year high of 35.48 per cent, six times the inflation rate.

Lim Chang-yul, the finance minister, dismissed speculation that Korea might be in danger of defaulting on overseas loans, which could result in a moratorium and restructuring of debt similar to that affecting Latin America in the 1980s.

In response, the government announced it was accelerating a bond opening of the stock and bond markets to foreign investors. It also suspended the operations of five more troubled investment banks in addition to nine suspended last week as part of a restructuring of the financial industry under IMF terms.

It also announced plans to issue a \$2bn bond to meet its short-term debt obligations. The bond, which will have a three-year maturity, is likely to be priced to yield a much higher spread than South Korea is accustomed to paying.

Under the stock and bond market measures, the foreign shareholding ceiling in listed companies will nearly double to 50 per cent from today, while foreigners

will be able to acquire 30 per cent of guaranteed medium-term corporate bond issues from tomorrow.

The Seoul bourse reacted to the measures by climbing 3 per cent to 399.85. But analysts did not expect much capital inflow because of worries over foreign exchange losses.

Mr Lim expressed confidence that foreigners would respond favourably to the market opening, despite this year's 46 per cent drop in the won's value.

Korea's official reserves were \$23.9bn, but access to \$17.9bn was blocked because the funds were in overseas accounts. Korea must meet short-term obligations of up to \$20bn by year's end.

Korea's crisis hit financial markets across the region with the Taiwan dollar tumbling and shares in Hong Kong falling.

The won has fallen by its daily limit for three days in response to reports that Korea's total short-term debt exceeded \$100bn, nearly twice previous estimates.

Mr Lim said the large debt did not pose a threat since nearly half was borrowed by overseas subsidiaries of Korean companies.

He admitted that Korea's heavy reliance on short-term debt was a main reason for the financial crisis, but the nation's debt servicing was modest at 6 per cent of gross domestic product.

Mr Lim said the government would not place its foreign exchange reserves in the overseas branches of Korean commercial banks after the IMF revealed that usable reserves had fallen to only \$6bn last week because of the practice.

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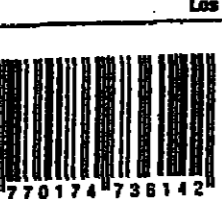
Korea's crisis hit financial markets across the region with the Taiwan dollar tumbling and shares in Hong Kong falling.

## Markets

STOCK MARKET INDICES	
New York Stock Exchange	(+44.28)
Dow Jones Ind. Av.	7,985.37
NASDAQ Composite	1,593.08
Europe and Far East	
CAC40	(-27.22)
DAX	(-57.94)
FTSE 100	(-48.4)
Nikkei	(-208.36)
US BOND YIELDS	
3-month Treasury Bill	5.180%
Long Bond	5.100%
Yield	5.104%
OTHER RATES	
UK 3-month interest	7.5%
US 10 yr Govt	106.950
France 10 yr Govt	103.2
Germany 10 yr Bond	104.40
Japan 10 yr JGB	105.32
WORTH SEA OIL (Avg)	57.02
Brent Oil	57.02

GOLD	
New York Comex	\$286.6
(Dec)	(282.8)
London	\$284.15
(283.85)	
EXCHANGE RATES	
Dollar	
New York Stock Exchange	1.85
2	1.784
DM	5.9722
FF	1.444
Y	123.8
London	
S	1.8515
DM	1.7390
FF	5.9520
Y	1.4432
Y	123.025
Tokyo Close	128.88
Shanghai	Y 128.45
2.9446	(2.9533)

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## NEWS: EUROPE

Government gives itself room for manoeuvre by leaving detail to new round of legislation in two years' time

## Paris approves draft bill for 35-hour week

By Robert Graham in Paris

France's Socialist-led government yesterday approved a draft bill introducing a 35-hour working week in the year 2000 for private-sector companies employing more than 20 people.

The controversial proposal, opposed by the Patronat employers' federation, was criticised by President Jacques Chirac after he had chaired the cabinet meeting endorsing the bill. But the government has left room for manoeuvre

by leaving much of the detail to a second round of legislation in two years' time.

Yesterday's draft will be debated by parliament in mid-January. Compared with initial proposals discussed in October, when the government decided to go ahead with the project, concessions have been made to the problems of small businesses.

Originally, all private companies employing over 10 people were expected to cut the working week from 39 to 35 hours in the

year 2000. Those smaller than this would have until 2003.

The government's decision to broaden the scope of those excluded from early introduction of the scheme means some 1.8m companies employing over 35 per cent of the workforce will have until 2003 before they have to comply. But, in parliament, the left will press to reduce those excluded, to companies employing 10 people and less.

The draft proposes encouraging companies to move to the 35-hour

week by paying a sliding scale incentive based on lowering levels of social security outlays. Those who begin in 1998 will receive the equivalent of FF9,000 (\$1,510) per employee in the first year if they reduce working hours by 10 per cent and boost the workforce by 6 per cent. The incentive is greater if the reduction is bigger.

Over the next four years the incentive drops to FF5,000. Equally, those beginning the scheme late will receive less, and nothing if they have agreed no

work reduction by 2000.

Key rules for fixing overtime payments, the essential extra cost for employers, have been left until the second law. This is likely to be 25 per cent extra per hour. Leaving out this element allows flexibility in talks between employers, unions and government.

Despite the opposition of the Patronat, which claims costs could rise by 11 per cent as at the year 2000, the government hopes the scheme will allow businesses a chance to introduce more pro-

ductive and less rigid working arrangements. Of late, ministers have begun to play down the impact on job creation.

The proposed law side-steps whether employers can reduce effective pay in return for cutting work hours and taking on more staff. Employers will be able to average out the number of hours worked over the year. Public sector employees are excluded from the proposed law, largely because the state cannot afford to take on more personnel.

## Danish survey forecasts surpluses

By Hilary Barnes in Copenhagen

Denmark will enjoy a surplus on both the current account and the general government budget fiscal balance for the first time since 1963, Marianne Jelved, minister for the economy, predicted yesterday when presenting a new government economic survey.

The budget is now expected to show a surplus this year, for the first time for 10 years, of about 0.6 per cent of GDP, rising to 2.2 per cent of GDP in 1999.

The current account, which has been in surplus since 1989 after 26 consecutive years in deficit, will narrow to 0.5 per cent of GDP from 1.5 per cent in 1998.

The government has not allowed the crisis in the East Asian economies to cloud the outlook for the next two years, when it expects that GDP growth will be about 2.7 per cent and 2.5 per cent respectively.

The economy has grown at an average 3.2 per cent between 1994 and 1997, with a growth rate of 3 per cent predicted for the current year. The boom has cut the unemployment rate from 12 per cent in 1993 to 7.7 per cent this year and a predicted 7.1 per cent in 1998.

But it is also taking its toll of the current account surplus. With exports for the first nine months of the year at DKr237bn (\$36bn) and imports at DKr216bn, the trade surplus has narrowed to DKr21bn compared to DKr26bn in the same period last year.

While the government's economic forecast for next year is close to the consensus view, economists were expecting rather better trade figures. Anne Buchardt, an economist at Unibank, said: "These were disappointing figures. We expected a better trade balance. It looks as if the current account balance may be close to zero for the full year."

Wolfgang Münchau

## Ukraine will be 'forced' to make reforms

By Charles Clover in Kiev

Ukraine's financial situation is so bad that the government must carry out reforms or face economic collapse, Serhiy Tyhytko, the reforming deputy prime minister, said yesterday.

"Our extremely difficult financial situation is an excellent foundation for serious economic reforms," he told a Kiev economic forum. "Nobody implements reforms of their own will... Everything is pushing us toward reforms today."

He said the government had to cut its expenditures drastically, get rid of burdensome regulations, lower taxation, and above all, privatise. "If we can manage, in the course of two or three months, to untie the hands of business, in six months business will stand up and help us."

His comments came amid mixed news on the financial front. As interest rates edged up to 44 per cent in a treasury bill auction, Dmytro Rikberg, national bank spokesman, said that the Lombard borrowing rate would be raised from 37 per cent to 45 per cent tomorrow to defend Ukraine's currency, the hryvnia.

Meanwhile, a deal with Merrill Lynch to place hundreds of millions of dollars worth of Ukraine's treasury bills may be revived. Last week the IMF had objected to the deal on the grounds that the instruments carried an exchange rate hedge.

The IMF appears not to have reversed its position, but Valery Pustovoitenko, the prime minister, yesterday asked Merrill Lynch to go ahead and place some \$400m worth of the bills.

Alex Seippel, a managing director for debt capital markets at Merrill Lynch, said that his bank was in the final stages of approval of the deal, though it has not been signed. Mr Seippel named a figure of \$250m for the placement.

"If we cannot get money on the external and internal markets, there's only one alternative: sell some state property," said Mr Tyhytko. "We must remember that the state needs money, and the state is a bad owner."

Yuri Hryshch, deputy chairman of the State Property Fund, added yesterday that Ukraine planned to issue government bonds next year which could be converted into shares of companies being privatised.

## High-flying banker catches the eye

Finland's Sirkka Hämäläinen is becoming known for toughness

Sirkka Hämäläinen's name does not exactly trip off the tongue - unless you are Finnish - but it is being heard more and more in European high places.

The governor of the central bank of Finland is being talked of as a candidate for one of the top jobs on the six-member executive board of the European Central Bank, its powerful inner core.

Several EU officials even hold her in such high esteem that they look upon her as a possible compromise candidate for the ECB presidency itself if the Netherlands and France fail to reach a deal over their competing candidates.

Among other EU central bankers who could be an alternative to Wim Duisenberg, the Dutch president of the European Monetary Institute, and Jean-Claude Trichet, governor of the Bank of France, she is considered the most promising.

Ms Hämäläinen regards the stand-off between the two leading candidates for the top job as unsavoury. "I think it's painful. It is a pity that we have this kind of situation. It can - I am not saying it does, but it can - have an effect on the credibility of the central bank. It would have been good to have been able to agree on the name of the president

early enough because there are so many practical questions which are now important. So these questions should have been solved earlier."

It is not that European central bankers disagree on much that matters. They all have a dislike of inflation, a fondness for monetary targets and a suspicion of politicians. Ms Hämäläinen is no exception. In some respects she is tougher than most of her colleagues, having seen through the most painful monetary contraction and subsequent recession experienced by any EU country in the 1990s.

She says bluntly that the ECB, as a new central bank, will have to establish its credibility in financial markets without fear or favour, and without paying too much attention to politics.

"Central banks have to be medium-term oriented. And politicians very often just see the short term. The short term can be in very serious conflict with the medium term. And that's why I think it is very important that central banks are independent. Their task must be very narrow, but there they must have independence."

To succeed, the ECB must not shy from conflict, she says. Unpopularity is, after all, the fate of a central banker. "In all countries



Hämäläinen: ECB must not shy from conflict

Maurice Helander

there is some kind of tension between the central bank and the government. It is always popular to reduce interest rates, and always unpopular to raise them."

Ms Hämäläinen is reticent about her own ambitions, but she has ambitions for the Euro project and for the euro, the future single currency. If the ECB succeeds in what it has to do, the euro would end up as a strong

and internationally important currency.

"Then the ECB will have to meet its responsibilities in the global environment," she says, emphasising the need for greater international co-operation among central banks.

While she expresses optimism about the ECB's success as a central bank, she is more concerned about fiscal policy and wage settlements

under Emu. She is not yet persuaded by the greater degree of wage moderation during the last few years.

"Is this a permanent change in behaviour or has it merely something to do with the high unemployment rate? If it is not permanent, then we will see a new difficult adjustment period."

Without sufficient fiscal discipline, she says, there will be higher interest rates.

Ms Hämäläinen is notably dismissive of the view that in their anti-inflationary zeal central bankers are fighting non-existing threats. While inflation rates have moderated throughout the world during the 1990s to an extent that some economists have even proclaimed inflation to be dead, she maintains it is "a phenomenon connected with human behaviour - you can never forecast precisely what human behaviour is going to be".

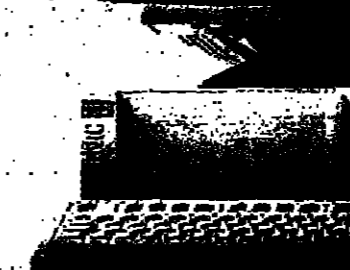
Having seen the results of erratic economic behaviour over the years, Ms Hämäläinen falls into the category of the archetypal conservative central banker.

Her main message is that central bank independence is not a theoretical concept enshrined in a treaty, but a principle that will be put to practical use. Such strong-willed determination - which she shares with most of her colleagues in other EU central banks - may not be fully appreciated everywhere in EU capitals.

Wolfgang Münchau

SIEMENS NIXDORF

no short story



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## NEWS: ASIA-PACIFIC

# Anger at IMF terms may boost Korean opposition

By John Burton in Seoul

A public backlash against tough terms imposed by the International Monetary Fund's \$57bn bail-out of South Korea could tilt next week's presidential election in favour of the main opposition candidate, who wants to renegotiate the controversial deal.

Private tracking polls conducted by the Korean media show that Kim Dae-jung, veteran centre-left opposition leader, has gained a narrow 5 percentage point lead over the government candidate, Lee Hoi-chang, in the close election campaign. Mr Kim's support is around 40 per cent.

Published opinion polls are banned for three weeks before the December 18 election.

Mr Kim, who was slightly trailing Mr Lee two weeks ago before the IMF deal was signed, has enjoyed a bounce in popularity as he criticised the IMF terms, which are expected to lead to growing unemployment as austerity measures threaten to close uncompetitive companies.

A victory by Mr Kim could further unsettle foreign investor confidence in Korea by increasing doubts about its commitment to implementing the IMF conditions, which many Koreans regard as a threat to their "economic sovereignty".

When Michel Camdessus, the IMF managing director, asked the candidates to submit a written pledge of support for the rescue package, only Mr Kim declined. He sent a letter instead to the government that he supported the agreement in principle but subject to further negotiations.

Public anger about the nation's debt crisis and ensuing financial turmoil is working against Mr Lee, who has tried to distance himself from the unpopular administration of Kim Young-sam, who cannot stand again.

The majority centre-right vote that would normally ensure a victory for Mr Lee is being split by Rhee In-je, a young former provincial governor who bolted from the government party to mount an independent bid.

Mr Rhee, who has also criticised the IMF deal and called for its renegotiation, is enjoying a rise in popularity at the expense of Mr Lee, the only candidate to support the IMF agreement.

Analysts predict that if Mr Rhee gains more than 20 per cent of the vote, it would help throw the election in favour of Mr Kim, who is making his fourth presidential bid since 1971. The opposition has never won a presidential election since South Korea was founded in 1948.

Some analysts believe that Korea's normally conservative voters may still opt for stability and vote for Mr Lee. "Once they get into the voting booth, they could regard Lee as the safest choice in a time of national troubles," said a western diplomat.

Neither candidate has a background that would suggest a strong commitment to the radical market reforms demanded by the IMF.

Mr Lee, a former supreme court judge, is considered a quintessential member of the political elite that has long ruled Korea's dirigiste economy, while Mr Kim would be expected to protect the interests of his core constituency, which includes trade unions, small businesses and farmers.

Lim Chang-yuel, Korea's finance minister, dismissed as election rhetoric the claims by Mr Kim that he would renegotiate the IMF terms if elected.

"There is no reason why international markets should worry if Kim becomes president. When I

initially briefed the candidates about our request to the IMF, he immediately gave his full support to the proposal. I expect he will fulfil that commitment once the election is over," said Mr Kim in an interview. Editorial comment, Page 11



Rhee In-je (right), with party adviser and former presidential candidate Park Chan-jong

## Vietnam donors to give stiff warning

By Jeremy Grant in Hanoi

When Vietnam's donors meet in Tokyo today to discuss official development assistance, they will issue stern warnings to Hanoi to reform, or risk economic decline.

Diplomats expect Hanoi will receive slightly over \$2bn in concessional funding, just below last year's levels. Much of that will come from Japan which, for strategic reasons, wants to maintain commitments to Hanoi despite a 10 per cent cut in its worldwide aid.

But the fear is that Hanoi will also do as it has done before: listen politely and fudge the reforms. With the Asian economic crisis jarring at the fringes of Vietnam's deteriorating economy, analysts say that such a response could consign the communist-run country to years as a backwater.

"If they don't sort it out now, they may lose the next few years. There is a risk that slow change could be seen as no change at this point," said Tony Foster of Freshfields lawyers.

Foreign investment is sharply down on last year's levels and domestic savings are only 17 per cent of gross domestic product. Exports have been hit hard by regional devaluations.

Donors will be hoping the new prime minister, Phan Van Khai, has the muscle to push through recently proposed reforms that would help set Vietnam on a path to export-led growth and unlock fresh funding from the International Monetary Fund and World Bank.

They also want Hanoi to improve its aid disbursement record, which is the lowest in Asia. Jean-Pierre Verbiest, Asian Development Bank representative, said concessional funding would not last "for ever" and Hanoi should realise that it was subject to the fiscal constraints in developed countries.

## Export surge increases pressure on Hashimoto

By Gillian Tett in Tokyo

Japan's exports surged in October compared with the same period last year but imports remained sluggish, further increasing political pressure on prime minister Ryutaro Hashimoto to boost domestic demand.

Continuing economic weakness has forced the government to announce another emergency package - the details of which are likely to be unveiled next week - and has led to sinking popularity ratings for Mr Hashimoto.

In a further sign of the government's concern about the economy, the Ministry of International Trade and Industry yesterday pledged to double the amount of government-subsidised loans available for small and medium-sized companies from ¥6,000bn (\$47bn) to ¥12,000bn. The move reflects rising alarm that the recent banking turmoil could soon

have a serious knock-on effect on the "real" economy, because banks are cutting credit lines to companies - which could trigger bankruptcies given the flat domestic demand.

The imbalance between Japan's imports and exports pushed Japan's politically sensitive trade surplus in October to ¥1,277.5bn, 96.8 per cent up on a year earlier. The current account surplus rose 220.2 per cent on an annual basis to ¥1,081.5bn, the seventh consecutive month of annual growth.

Some government officials hope a continued rise in exports this winter will help ease this pressure on industry, particularly since the yen has fallen below ¥130 to the dollar to touch a five-year low this week.

While such falls have traditionally prompted protest from Washington, the US has been silent about currency trends recently. This has prompted some Japanese

officials to suspect that some yen weakness - and more export growth - will be tolerated.

Nevertheless, if the export trend continues, it is likely to upset Washington, which has demanded that Tokyo take measures to stimulate domestic demand and reduce its massive trade surplus.

The ruling Liberal Democratic party is due to present its third package of proposals to boost the economy on Tuesday. This will cover tax reform, deregulation and measures to promote financial stability. Bureaucrats and politicians are still debating details of the proposals, including controversial suggestions that ¥10,000bn worth of government bonds should be issued to support the financial sector. The suggestion is viewed with deep unease by the Ministry of Finance, and has provoked splits in the LDP. Some analysts fear this could delay any proposals.

## Watchdog demands action over illegal payments to sokaiya

# Daiwa and Nikko braced for penalties in gangster scandal

By Gillian Tett in Tokyo

Japan's financial watchdog yesterday called for penalties to be imposed on Daiwa Securities and Nikko Securities, the country's second and third largest brokers, over a recent racketeer scandal.

The Securities and Exchange Surveillance Commission (SESC) has asked the Ministry of Finance to punish the groups after it produced evidence they had made illegal payments to Japan's *sokaiya* racketeers - who blackmail companies by threatening to reveal embarrassing details at shareholder meetings.

The move is another blow to Japan's brokerage sector, which has seen investor confidence slump after Yamaichi Securities, the

company's fourth largest brokerage, collapsed last month.

Details of the penalties are expected this month but analysts expect that they will be in line with those imposed on Nomura Securities, the largest broker, earlier this summer after similar findings.

Nomura was fined and parts of the company's domestic business suspended for several months. Some of these suspensions, such as an exclusion from Japanese government bond auctions, are still in force.

Nomura is the healthiest broker and analysts expect the group to rebound from the blow. The company's share of trading on the Tokyo Stock Exchange recovered to second position last month, in spite of the

suspension of some business.

Some analysts fear that large penalties could hit Daiwa and Nikko harder because the groups are not perceived to have as effective an international reach as Nomura and could lose clients to foreign investment banks.

Some officials suspect this will persuade the Ministry of Finance to impose slightly lighter penalties, particularly because the amount of money involved in the Nikko scandal was smaller than at Nomura.

The SESC said yesterday that Nikko had made illegal trades of some ¥29.5m (\$232.3m) in 1994 and 1995 by mixing up client and proprietary trading in its books. The proceeds of this were then passed to Ryuchi Koike, a well known *sokaiya*.

Daiwa made similar trades of some ¥354.8m between 1993 and 1995, the SESC said. This is thought to be similar to the amount of money involved at Nomura.

Officials admitted that the government would almost certainly be forced to implement some penalties, especially as the Japanese public has been deeply critical of the government's failure to act over the brokerage scandals.

In addition to the *sokaiya* scandals, it has also emerged that Yamaichi had ¥260bn of hidden *tobashi* losses, or losses which are concealed by shuffling between accounts.

Daiwa's share price has recently fallen amid rumours the group also has such losses. The company strongly denies this.

## NEWS: WORLD TRADE

## Brussels copyright proposals under fire

By Emma Tucker in Brussels and Alice Rawsthorn in London

The European Commission yesterday unveiled its long-awaited draft directive to harmonise European Union rules on copyright in the information society - amid a barrage of criticism from industry.

The legislation aims to ensure fair treatment across the EU for products and services containing intellectual property, whether distributed online, or on digital carriers, such as CD-ROMs, and DVD-Video. Adoption of the

law would allow the EU to meet many of its international obligations under the new World Intellectual Property Organisation (Wipo) treaties.

Mario Monti, the single market commissioner, described the proposals as striking "a fair balance between the divergent and often conflicting rights and interests concerned".

However, the draft directive immediately came under fire from the entertainment software sector. The International Federation of the Phonographic Industry (IFPI), which represents record

companies, claimed one loophole would facilitate the sale of devices to record encrypted digital music signals.

Record companies also criticised the Commission's failure to harmonise home copying legislation. "This is an extremely flawed document, at a time when we are moving towards really substantive changes in the way our business is conducted," said Rick Dobbis, president of PolyGram's record companies in continental Europe.

The main elements of the draft directive, which could be significantly amended in its final form, include:

● Granting authors, performers, record and film producers and broadcasters an exclusive right to authorise or prohibit copies of their works. This clause recognises the fact that when distributed digitally, films and music can be copied perfectly, making them more vulnerable to piracy.

● An exemption is made for certain technical acts of reproduction dictated by technology, but with no economic significance, such as copies made by computers during transmission. However, member states remain

free to devise their own rules for home copying. At present, some countries impose levies on blank tapes and video recorders to compensate rights holders.

● Authors will be granted a general exclusive right to authorise or prohibit any online distribution to the public of originals or copies of their work. Exceptions can be applied in teaching and scientific research, use by visually or hearing-impaired people, quotations for criticism or review, and use in judicial procedures.

● Member states will be required to provide adequate legal protection against illegal copying by banning production and sale of devices designed specifically to circumvent encryption technology. But the IFPI claims this rule should be tighter.

The proposals do not touch the controversial issue of who will be liable for breaches of copyright. This issue, of particular concern to online service providers such as telecom companies, will be dealt with in a directive next year examining all aspects of liability including defamation, privacy, pornography or racist content, and copyright infringement.

## Multinationals maintain their faith in Asia

By Elizabeth Robinson in London

Most US and European multinational companies with sales or factories in Asia have shrugged off the recent currency turmoil and are committed to the region and their investment goals.

A survey by Renaissance Technomic, the US management consultants, of the regional managing directors of 35 large multinationals found that, while one-third considered the region to be less attractive since the currency crisis, 79 per cent were not planning to change their strategy.

The findings are in contrast to a survey in 1994 of large companies exposed to Mexico in the wake of the peso's devaluation. Steven Ganster, managing director of Renaissance's Asian consultancy, said: "With Mexico, more companies said: 'We have to cut our overheads, sales forces and operating costs to minimise the damage'."

The survey of companies operating in Asia, including ICI, BASF and Hoechst from Europe, and General Motors, Tenneco and Dow Chemical of the US, found that only around 15 per cent felt sig-

nificantly worse off because of the regional crisis. This group included companies such as Whirlpool of the US which have no local plants and whose only exposure to the region was as importers of their own products manufactured elsewhere.

Manufacturers with local plants felt the devalued currencies offered opportunities to integrate their operations further through the buyout of dealers or distributors or the purchase of greater stakes in joint venture partners. A small group felt themselves in a stronger position post-crisis.

Some 14 per cent foresaw stronger sales in 1998 and the same proportion expected increased rates of return. The beneficiaries were mainly exporters from the region who expected that the devalued currencies would lead to increased shipments, offsetting tighter margins.

Some 60 per cent of the executives questioned believed the currency instability would last until the end of 1998 or beyond, with Thailand expected to undergo the longest period of instability. Most believed it would take three to four years for the region to recover to pre-crisis levels.

## False shoe labels worry EU

By Jeremy Grant in Hanoi

European Union customs authorities are concerned that a growing slice of Vietnam's burgeoning shoe exports to Europe is being falsely labelled, with manufacturers from third countries masking their source with Vietnamese certificates of origin in a bid to dodge tariffs.

"There is an increasing suspicion and in some cases documented evidence that shoes that are labelled as being from Vietnam are in fact from elsewhere," said one EU official.

He said customs offices in member state countries needed to gather more information before coming to firm conclusions but it appeared that many of the falsely labelled shoes are being made in China.

Customs officials are concerned because the development appears to be undermining efforts to stem a recent flood of cheap Chinese shoe imports, which are putting pressure on European manufacturers. Chinese shoes are subject to quotas and certain types of shoes are subject to anti-dumping duties.

Exporters in East Asia are allegedly obtaining certificates of origin issued by the Vietnamese Chamber of Commerce and Industry (VCCI) asserting that the goods are made in Vietnam, whose shoe exports are free of EU quota restrictions.

However, Pham Chi Lan, VCCI secretary general, said Hanoi had never issued certificates of origin for Chinese products and maintained strict internal controls on the process.

"We only issue them to the manufacturers of shoes. With the traders we've always been very careful," she said, adding that any false certificates could only be forgeries.

Vietnam's shoe exports are growing rapidly. It exported \$500m (\$60m) worth of shoes to the EU last year - mostly non-leather sports shoes and rubber-soled, canvas topped beach shoes - accounting for around 40 per cent of all Vietnamese exports to the EU. Brussels expects this year's exports to reach \$600m, a rise of about 30 per cent.

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"We only issue them to the

Global value of exports topped \$5,000bn last year

## World trade in goods up 5%

By Frances Williams in Geneva

World trade in goods grew by 5 per cent in volume terms last year, slightly below the average for the five previous years, but appears to have accelerated again in 1997, according to the World Trade Organisation.

Giving his annual overview of developments in the international trading system to WTO members, Renato Ruggiero, WTO director-general, said yesterday that 1997 would have been "a good year for trade".

Though he gave no estimates, he said both world trade and output were likely to be higher this year than in 1996, when they rose by 5 per cent and 2.5 per cent respectively.

However, Mr Ruggiero warned that east Asia's financial crisis could lead to an expansion of exports from the region and a slowing in import demand in the coming year. He urged other WTO members "to show understanding" and appealed to east Asian governments not to reverse economic liberalisation which, he said, could inhibit longer-term recovery prospects.

According to the WTO, 1997 has already seen a narrowing of regional differences in economic performance, with slower growth in east Asia, continuing rapid growth in Latin America, and stronger economic activity in western and eastern Europe compared with 1996.

The overall improvement in economic performance will spill over into improved real export growth for 1997, the WTO says, though the value of exports may grow more slowly because of the continued appreciation of the dollar.

In 1996 dollar appreciation, and lower prices for some commodities and semi-manufactured goods, lowered the growth by value of world merchandise trade to only 4 per cent. Nevertheless, the total value of exports topped the \$5,000bn mark for the first time, at \$5,130bn.

Exports of commercial services grew by 5 per cent in value terms last year to reach \$1,260bn. This was well down from the 14 per cent growth recorded in 1996, though much of the difference is accounted for by the rise in the dollar.

Commercial services trade rose particularly fast in Latin America and Asia, up by 8 per cent last year.

## NEWS DIGEST

## WTO offers presented

Thailand and India yesterday presented their offers in World Trade Organisation talks to liberalise global financial services markets due to end tomorrow. Seven countries promised to table new or improved offers by today. They are Bolivia, Colombia, Honduras, Indonesia, Malta, Romania and El Salvador.

Japan also said it was ready to improve its offer by scheduling in the WTO three bilateral agreements on liberalisation of its banking and insurance markets that it had previously concluded with the US.

The European Union told an informal meeting of negotiators that the talks were on a "razor's edge". The US said it was prepared to continue negotiating through the night in an effort to get other countries, particularly developing economies, to improve their offers further. Some US industry representatives have been disappointed by the offers from east Asia, which they feel do not go far enough. Frances Williams and Guy de Jongh, Geneva

## MEXICO-EU TRADE

## Talks planned on free trade

Hermilio Blanco, Mexico's trade and industry minister, said yesterday that detailed negotiations with the European Union on a free trade zone could start as early as March.

On Monday, Mexico and the EU signed a co-operation agreement that constitutes the legal and political basis for trade negotiations next year. Mr Blanco said the agreement would be sent to the Senate in January and should receive assent by the European Parliament three or four months later.

The growth of trade with North America has hit Mexico's share of trade with the EU, although EU-Mexico trade has risen in absolute terms. While bilateral trade reached \$11.2bn last year, the EU's share in Mexico's total trade dropped from 11.4 per cent in 1994 to 6.1 per cent last year. Similarly, the share of Mexican imports in the EU market has dropped from 15 per cent at the start of the decade to less than 9.

Adrian Michaels, London

## OECD Export Credit Rates

The Organisation for Economic Co-operation and Development announced new minimum interest rates (7% for officially supported export credits for December 15 1997 to January 14 1998 (November 15 to December 14 in brackets).

D-Mark	8.08	(6.13)
Esc	8.01	(5.91)
French franc	6.18	(6.18)
Guilder		
up to 5 years	5.90	(5.95)
5 to 8.5 years	6.25	(6.30)
over 8.5 years	6.25	(6.30)
Italian lire	6.73	(6.73)
Yen	2.10	(2.10)
Peseta	6.37	(6.35)
Sterling	7.82	(7.82)
Swiss franc	4.85	(4.50)
US dollar		
up to 5 years	6.76	(6.84)
5 to 8.5 years	6.80	(6.93)
over 8.5 years	6.90	(7.05)

These rates are published monthly by the Financial Times, usually in the middle of the month. A premium of 0.2 per cent is to be added to the credit rates when they are not in line with rates for 1997.

## Vietnam donors to give stiff warning

By Jeremy Giant in Hanoi

When Vietnam's donors meet in Tokyo today to discuss official development assistance, they will issue stern warnings to Hanoi to reform, or risk economic decline.

Diplomats expect Hanoi will receive slightly more aid in 1998 than last year, but donors will warn that the country must reform its economy to attract investment and to avoid economic decline.

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# Take nuclear weapons off alert, study urges

By Bruce Clark in Washington

Nuclear weapons are likely to be used sooner or later, either by accident or deliberately, unless they are eliminated, according to a panel of senior figures in the foreign-policy world who spent three years analysing the sources of international conflict.

The study, co-chaired by Cyrus Vance, former US secretary of state, called on the five nuclear powers to take their weapons off

alert and dismantle them.

"The proposition that nuclear weapons can be retained in perpetuity and never be used - accidentally or by design - defies credibility," said the report by the Carnegie Commission on Preventing Deadly Conflict. The report was the latest in a series of warnings by defence experts from all parts of the political spectrum that the US administration has become complacent about a risk of nuclear explosions which may

be rising rather than falling.

Three senior US experts wrote in the journal *Scientific American* last month that "the systems built to control Russian nuclear weapons are now crumbling" because of poor morale and training in the Strategic Rocket Forces and the failure of radar systems that detect incoming missiles.

This highlighted the risks posed by the high-alert status of most US and Russian missiles, which meant the two superpowers

remained ready to fire "more than 5,000 nuclear weapons at each other within half an hour".

General Lee Butler, a former head of the US Strategic Air Command, has suggested removing the guidance mechanisms from nuclear weapons so the decision time in a nuclear stand-off would be increased from 15 minutes to 150 hours. Hawkish US commentators have drawn attention to signs Russian military doctrine is placing increased emphasis on nuclear

weapons as its conventional arsenal deteriorates.

The doors of the arcane and secretive world in which US nuclear policy is formulated were briefly opened this week when senior officials leaked a presidential directive laying out a change in nuclear-weapons doctrine. It is reported to renounce the cold-war theory the US must be able to prevail in a protracted nuclear war, while broadening the purpose of nuclear weapons to

include retaliation for chemical or biological attacks.

Joseph Cirincione of the Henry Stimson Center, a disarmament lobby group, said the directive's cautious tone showed policy was formulated by "mid-level officials from the Reagan era" with little effort from the Clinton administration to promote new thinking. *Preventing Deadly Conflict*, available at 1775, Massachusetts Ave NW, Suite 715, Washington DC 20005

## Pope to Castro: Don't be Scrooge

By Pascal Fletcher in Havana

Six weeks before the arrival of Pope John Paul II on his first trip to Cuba, President Fidel Castro faces the choice of casting himself as either Father Christmas or Scrooge.

The 71-year-old Cuban leader must decide whether to grant a personal request from the pontiff for the return of Christmas as a national public festival on the communist-ruled Caribbean island.

Cuba stopped officially celebrating Christmas more than two decades ago when its communist rulers decreed the holidays interfered with work on the strategic sugar harvest.

Catholic Church leaders are still hoping the Cuban president will accede to the papal request as a goodwill gesture for the pope's visit on January 21-25. An employee at the ruling Communist party's office of religious affairs said no decision had been taken yet.

In recent years, once-hostile relations between the government and the church have significantly improved and Christians can celebrate Christmas in their homes. But Christmas has remained a normal working and school day in Cuba.

In 1995, the authorities banned Christmas trees or decorations from state offices and institutions; last year a session of the island's National Assembly was held on Christmas Eve.

Scruffy sites will be transformed into monuments to the resurgent city's artistic and sporting pride

## Los Angeles builds its cultural ambitions

The elements of the cultural and civic revival under way in Los Angeles are there for everyone to see. You just have to look harder for some than others.

The unfinished car park near the downtown Music Center does not look much, but within five years it will be topped off with a \$200m-plus Frank Gehry-designed concert hall dedicated to Walt Disney.

At around the same time a scruffy site next to the exhibition complex will have sprouted a stylish sports arena, glorifying the name of its sponsor, the Staples office products chain, and showcasing the talents of the Lakers basketball and Kings hockey teams.

The spaces in between will be filling up with a new cathedral designed by Spain's Rafael Moneo, a music school, and, it is hoped, hotels and entertainment facilities.

Today, the Getty Center, a \$1bn fine arts and educational institute, shines in just-completed splendour on its west-side hill less than two years ago, it was the only assured addition to the LA landscape.

Then, the centre was still widely suspected as a product of *folie de grandeur* in memory of the eccentric oil billionaire, J. Paul Getty, whose legacy paid the bills. At best, it was seen as a stronghold for artistic traditions that had few LA roots.

Even a few months ago, David Geffen, one of LA's top pop culture gurus and partner in the DreamWorks studio, said the Richard Meier design, its classical contents, and ambitions to cultivate the city were "too good" for unappreciative low-brow Angelenos.

But by dint of much propagandising, the Getty - which opens next week - has been transformed in the public perception into a symbol of LA's cultural renaissance.

The Getty's newly announced links with the

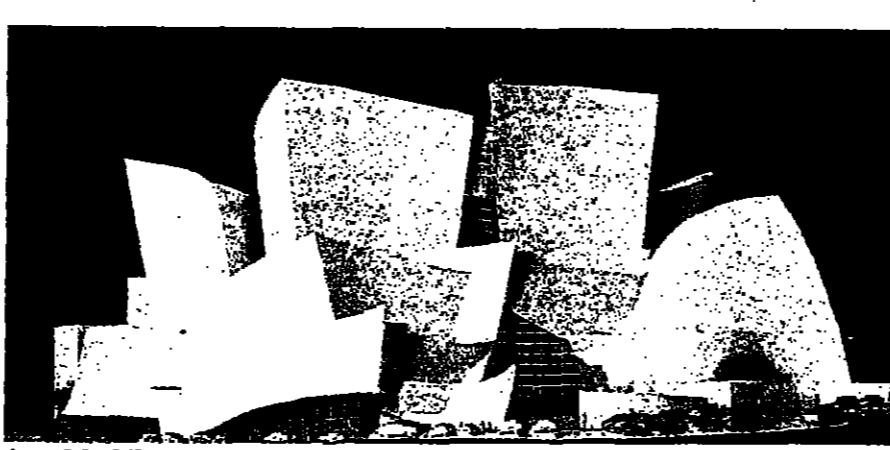
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A model of the Walt Disney concert hall, stalled for years but now expected to be built after a \$20m Disney donation

World Bank, to help preserve the cultural edifices and traditions of the third world, testify to its good intentions. Progress in the resurrection of the city centre bears witness to the institute's good influence.

Rattling off a tally of the cultural and civic reconstruction works under way in LA, Michael Eisner, Walt

Disney chairman, with some justification last week proclaimed the city the "most active" in the US. Mr Eisner was announcing his company's \$25m donation to the fund for the Walt Disney concert hall - a project endowed 10 years ago with \$50m from Walt's widow but until last week shunned by the group - which virtually

assures its completion.

Running down the list of corporate sponsors, most joining the project in the past 18 months, Eli Broad, chief fund-raiser over that time, said the new concert hall and nearby sports arena would bring \$m people to the city centre annually. The economic impact of the Disney building alone on down-

town is estimated at about \$1.6bn over 10 years.

But Mr Broad appeared less interested in the economics than in the broader significance of his project. It represented, he said, "the first time business has rallied together to do something for the public good".

Zev Yaroslavsky, chairman of the LA board of supervisors, had a similar message. Mr Broad, chairman of the \$43bn SunAmerica investment group, had taken on the hall funding drive "when no one gave it a chance". The upshot had been the rebirth of "corporate involvement on a meaningful scale".

Until last week, Disney sat idly by while the hall teetered on the brink of failure with only the car park built. But Mr Eisner's offering brought the total to within 20 per cent of the sum needed to complete the job, and was enough to encourage Mr Broad to predict an inaugural concert in 2001.

Disney's marketing

instincts may have had an influence, given the reviving interest in matters cultural generated by the Getty Center, and a reviving feeling of city optimism last detected at the time of the 1984 Olympics.

This "feel-good" factor was apparent at a regional economic summit last month, when political, academic and business leaders collaborated in an unusual programme to prepare an action plan to bolster job growth.

Jack Keyser, chief economist at the Los Angeles Economic Development Council, recalled the days before the recession, when growth and progress were taken for granted.

"No one worried. If a company went under, there was always another one. Then after the recession, when the jobs didn't come so easily, it was every man for himself. Now people are realising they have to work together if anything is to happen."

Christopher Parkes

### NEWS DIGEST

## Caracas move to oust minister

Luis Raúl Matos Azócar, Venezuela's finance minister, is facing an attempt by opposition congressmen to oust him from office, for the second time in a month.

Tomorrow Congress will begin hearings over Mr Matos' involvement in an allegedly fraudulent 1995 payment over a government contract. Opposition parties have proposed a censure and removal of Mr Matos from office in a no-confidence vote.

They allege that Mr Matos, architect of the economic reform plan, though not finance minister at the time of the contract, could have prevented an allegedly fraudulent payment of \$9.5m in what they say is a swindle involving an Italian company contracted by the Venezuelan military.

The outcome of the new vote will depend largely on the social democratic Acción Democrática (AD) party, which backed Mr Matos in last month's vote. The charges are widely seen as a far-fetched attempt to discredit Mr Matos and the achievements of the government's economic reforms as the campaign before next year's presidential elections heats up.

Raymond Collitt, Caracas

### ■ PUERTO RICO

## Newspaper sues governor

Puerto Rico's largest circulating newspaper is suing the island's governor for what it says is an attempt to stifle press freedom, and is seeking compensation for losses it claims it suffered after the government canceled advertisements in the newspaper.

Antonio Luis Ferré, editor and publisher of *El Nuevo Día*, said the government cancelled advertisements in the newspaper in April after it carried a series of articles alleging corruption in the administration. The newspaper is claiming \$8m in lost revenues.

However, Pedro Rossello, the governor, contends that the advertising was stopped because of budgetary constraints. He said he welcomed the suit "because I want the people to be aware of what's being discussed here".

Constance James, Kingston

### ■ CURRENT ACCOUNT DEFICIT

## US sales overseas fall

Weakening overseas sales drove the US current account deficit, the broadest measure of the nation's trade performance, to its highest level in a year during the third quarter, the Commerce Department said yesterday.

The recent Asian currency crisis is expected to increase pressure sharply on the US trade deficit in coming months as Asian trade partners try to boost sales to the US while buying fewer American products.

In the three months from July to September, the deficit widened 11.4 per cent to \$42.16bn from \$37.85bn in the second quarter - its highest level since \$42.83bn in the third quarter of 1996.

Reuters, Washington

### ■ PANAMA ELECTRICITY

## Restructuring plan approved

Panama's state electricity company is on course for privatisation next year after approval of a restructuring plan. The generating and distributing operations of the Instituto de Recursos Hidráulicos y Electrificación (IRHE) monopoly will be separated. Private investors will be invited to bid for 51 per cent stakes in three new regional distribution companies and in a thermo-electric generating company, and for 49 per cent stakes with operating control in three hydro-electric generators.

The electricity sector is estimated to need investment of \$1.5bn in 10 years to meet demand. IRHE, which is valued at about \$1bn, has appointed the International Finance Corporation, a private-sector arm of the World Bank group, to handle the sale.

James Wilson, Panama City

### ■ CHILE POLLS

## Centre-left looks set to win

Chile's 8m voters go to the polls today to elect all 120 members of the lower house, and 20 of the 26 elected senators. The opinion polls forecast a solid majority between 53 and 55 per cent of the votes, for the centre-left government coalition, known as the Concertación for Democracy.

Imogen Mark, Santiago

## Pilots condemn Argentine air safety record

By Ken Warr in Buenos Aires

Safety in Argentina's airspace is "critically deficient", according to Latin American and Caribbean airline pilots meeting in Buenos Aires, following a series of near-collisions and other incidents this year.

The regional meeting of the International Federation of Airline Pilots' Associations (IFALPA) yesterday forwarded the resolution to the federation's annual conference in Montreal in April. Confirmation of "critically deficient" or "Black Star" status, the lowest category in IFALPA's classification system, could prove highly embarrassing for the government of President Carlos Menem and might affect the country's fast-growing tourism industry.

"The near-misses and other problems point to alarm bells ringing," said Rob McInnis, IFALPA president. "Something must be done on an urgent basis."

Air traffic control, industry regulation and safety oversight remain under the control of the Argentine military, a source of constant friction with local civilian pilots. This week pilots blamed communications problems with control staff for a near-collision in October between two Brazilian airlines near Recife international airport, the 31st such incident reported this year. Earlier the same month an Austral airline DC-9 crashed in bad weather on a domestic flight, killing all 79 people aboard.

"Argentina should have an independent, competent well funded safety management structure under the charge of safety professionals," said Mr McInnis. "It could be funded from over-flight, landing and other fees." At present these revenues are absorbed into the military budget.

The air force maintains that it is spending more on safety and upgrading infrastructure. But pilots complain that when problems arise, the military is more eager to assign blame than to root out structural problems. Industry analysts say morale among air safety professionals is low.

The Argentine Airline Pilots Association yesterday unveiled a confidential reporting system under which pilots and other workers in the industry could report safety problems anonymously without fear of retribution.

What is it that makes Scotland the leading destination for companies setting up telephone-based service centres? The answer is people. Bright, talented, well educated people.

With over 100 call centre operations, employing well over 15,000 people, it's plain to see that more and more companies, of all sizes, are capitalising on Scotland's high quality employee resource.

But you don't need to take our word for it.

"We tend to close well over 90% of our sales contacts on first call from our Scottish call centre," explains Carol Walker, British Telecom's Glasgow Service Development Manager.

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## NEWS: INTERNATIONAL

## IMF hopes for backing on new loan facility

By Robert Chote,  
Economics Editor,  
in London

The International Monetary Fund is hoping to win approval in the next few days for a new lending facility for countries facing financial crises, but some officials fear developing countries could block it.

The IMF board is expected to discuss the proposed Supplemental Reserve Facility

tomorrow and Monday.

It will provide a formal arrangement under which the IMF can lend relatively large sums, but over short periods and at higher-than-normal interest rates.

The facility would offer loans on relatively short maturities of two to three years. The interest rate would be between 3 and 4 percentage points above the IMF's normal lending rate, which at present stands at

about 4.7 per cent.

The loans would be available to emerging market countries which are facing capital outflows and crises of confidence, allowing them to replenish their reserves.

There will be no formal access limit, relative to a country's quota or shareholding in the Fund.

The IMF management wants the facility in place in time for the next disbursement of its loan package to

South Korea. The Korean authorities have already agreed in principle to take money under the terms of the new facility.

The facility is expected to win widespread support among IMF directors. It is backed by the Group of Seven industrialised nations and also by the Asian countries that were represented at the recent finance ministers' meeting in Manila, where it was discussed.

However, the use of short maturities means that the facility will need 85 per cent approval by members of the IMF board. A similar proposal was defeated in the board last year, creating nervousness in some quarters that this scheme could meet a similar fate.

Other officials argue, however, that the supplementary nature of the new facility should meet the objections of opponents to the earlier

version. The loans will have the same policy strings attached as the Fund's longer-term lending.

They were inspired by the terms which had been imposed on Mexico when Washington lent money following the financial crisis of 1994-95.

An 8 percentage point surcharge encouraged Mexico to repay its loans to the US unexpectedly early.

IMF analysis, Page 11

## NEWS DIGEST

## Zimbabwe tax rises scrapped

Herbert Murerwa, Zimbabwe's finance minister, yesterday withdrew three tax increases, completing the government's retreat from last month's mini-budget. The 5 per cent surcharge on electricity tariffs was withdrawn immediately while the 2.5 per cent rise in sales tax to 17.5 per cent will be cancelled from January 1, as will higher fuel taxes announced a fortnight ago.

The climbdown follows Tuesday's successful strike organised by the Zimbabwe Congress of Trade Unions against the tax increases and the formal withdrawal of two other taxes - the 5 per cent surcharge on personal and corporate income tax. The taxes were raised last month to pay for the Z\$4bn (\$167m) compensation package to war veterans.

The withdrawal of the taxes increases the budget deficit to an estimated 11 per cent of GDP from the 8 per cent forecast in the budget in July. Tony Hawkins, Zimbabwe

## EDUCATION

## Governments 'must try harder'

Governments still have a long way to go in modernising education structures to meet the demanding challenges of the next century, according to the Organisation for Economic Co-operation and Development.

The latest international indicators from the OECD's 29 member countries show that, while most young people's attainment is improving, there are a minority whose education is a failure.

The OECD says: "Social cohesion rather than narrow economic gain is the greatest prize for societies in which all citizens use learning to become more effective participants in democratic, civil and economic processes."

While in some OECD countries, more than 80 per cent of the population aged 25 to 64 have completed at least upper secondary education, the proportion is less than 50 per cent in Greece, Ireland, Italy, Luxembourg, Portugal, Spain and Turkey.

Andrew Bolger, London

## JERUSALEM

## Israel to outlaw census

The Israeli parliament was last night set to pass legislation to prevent the Palestinian Authority from holding a census in east Jerusalem. The proposed amendments to a 1994 law seek to restrict "meetings and activities" by the PA to areas under its sovereignty. It also added that the PA could not carry out activities that affected someone else's sovereignty, implying the whole of Jerusalem was part of Israel's sovereignty.

Judy Dempsey, Jerusalem

## SUDAN

## Albright meets rebel leader

In one of the strongest signals to date of Washington's support for Sudanese groups battling the Islamic government in Khartoum, Madeleine Albright, the US secretary of state, yesterday met John Garang, head of the main rebel organisation.

The meeting in Uganda, with Mr Garang and other members of the National Democratic Alliance, an umbrella opposition group, will give Mr Garang's Sudan People's Liberation Army, which has enjoyed a string of military successes this year, a psychological boost.

Mrs Albright said her intention was to show high-level support for efforts to change Sudan's murderous ways. Washington has long accused the National Islamic Front of exporting terrorism.

Michela Wrong, Nairobi

## Iran and Arab states differ at Islamic meeting

By Robin Allen in Tehran

Sharp differences emerged yesterday between Iran and Arab states over Middle East peace-making and security in the Gulf, as a power blackout and a leaking roof in Iran's new conference centre curtailed proceedings at the summit meeting of the Organisation of the Islamic Conference.

These disagreements centred on the "land-for-peace" formula at the heart of the Middle East peace process; Turkey's military incursion into northern Iraq; protests by the oil-rich Gulf states at Iran's occupation of three Gulf islands claimed by the United Arab Emirates; and Iran's attempts to persuade the Gulf states to withdraw from defence arrangements with the US and instead forge collective security arrangements for this "Islamic sea".

The damage done by snow and heavy rain caused acute embarrassment to Iranian officials, who have sought to use the summit to improve Iran's international image. The conference was temporarily moved to the nearby headquarters of the national broadcasting company.

While all 56 OIC countries blame Israel for stalling the peace process, several Arab states including Egypt, Syria and Jordan, and the Palestinian Authority, were unhappy at the description by Iran's spiritual leader,

Ayatollah Ali Khamenei, of the land-for-peace formula as a "losing transaction".

Disagreements had also emerged over a draft resolution expressing concern at Muslim states which co-operated militarily with Israel, an implicit reference to Turkey, which this week hosted Yitzhak Mordechai, Israel's defence minister.

Iraq's delegation, led by Taha Yassin Ramadan, deputy prime minister, accused Turkey of this week launching "a new invasion of northern Iraq" with 20,000 troops and armour. The OIC, however, is likely to limit itself to a resolution reaffirming the need to protect Iraq's territorial integrity.

Many delegates were also unhappy about Iran's bid to steamroller OIC resolutions through in "bundles", with Amr Moussa, Egypt's foreign minister, telling his counterparts at the first closed session yesterday he was "sure none of you have read all 142 of them".

John Barham adds from Ankara: Mr Mordechai ended a successful three-day visit to Turkey yesterday, further strengthening close ties between the region's principal military powers.

An Israeli official said the visit, the first to Turkey by an Israeli defence minister, was primarily intended to advance the broader political relationship rather than just trying to sell Israeli defence hardware.

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If the rainforests are being destroyed at the rate of thousands of trees a minute, how can planting just a handful of seedlings make a difference?

A WWF - World Wide Fund For Nature tree nursery addresses some of the problems facing people that can force them to chop down trees.

Where hunger or poverty is the underlying cause of deforestation, we can provide fruit trees.

The villagers of Muganga, Zaire, for example, eat papaya and mangoes from WWF trees. And rather than having to sell timber to buy other food, they can now sell the surplus fruit their nursery produces.

Where trees are chopped down for firewood, WWF and the local people can protect them by planting fast-growing varieties to form a renewable fuel source.

This is particularly valuable in the impenetrable Forest, Uganda, where indigenous hardwoods take two hundred years to mature. The *Markhamia* trees planted by WWF and local villages can be harvested within five or six years of planting.

Where trees are chopped down to be used for construction, as in Panama and Pakistan, we supply other species that are fast-growing and easily replaced.

These tree nurseries are just part of the work we do with the people of the tropical forests.

WWF sponsors students from developing countries on an agroforestry course at UPAZ University in Costa Rica, where WWF provides technical advice on growing vegetable and grain crops.

Unless help is given, soil is exhausted very quickly by "slash and burn" farming methods. New tracts of tropical forest would then have to be cleared every two or three years.

This unnecessary destruction can be prevented by combining modern techniques with traditional practices so that the same plot of land can be used to produce crops over and over again.

In La Planada, Colombia, our experimental farm demonstrates how these techniques can be used to grow a family's food on a small four hectare plot. (Instead of clearing the usual ten hectares of forest.)

WWF fieldworkers are now involved in over 100 tropical forest projects in 45 countries around the world.

The idea behind all of this work is that the use of natural resources should be sustainable.

WWF is calling for the rate of deforestation in the tropics to be halved by 1995, and for there to be no net deforestation by the end of the century.

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International Secretariat, 1196 Gland, Switzerland.

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## NEWS: UK

Inward investment English MP challenges aid given in Wales ■ Hyundai factory delay confirmed

## State grant to LG to be probed

By Juliette Jowit in Cardiff

A £247m (£413m) state grant paid to South Korean electronics giant LG is to be investigated by a spending watchdog after a complaint from a senior Labour MP.

The grant was a contribution towards the company's £1.7bn investment in two electronics factories in south Wales, which together will be the biggest inward investment project in Europe.

The investigation by Sir John Bourn, the comptroller and auditor general, is a response to a letter from Alan Campbell, a Labour member of the House of Commons public accounts

Korean industrial giant Hyundai may have to delay for up to a year the opening of a computer chip factory in Scotland, Locate in Scotland said yesterday. As reported by the Financial Times in November, the government agency said there would "be some delay in equipping and commissioning" Phase One of the Duffryn plant which is due to employ 800.

"It would now appear that the disruption to the Korean economy is so severe that Hyundai, like many other companies, is re-assessing its short-term programme," said Donald Dewar, UK government chief minister for Scotland.

committee, whose Tyne-mouth district in north-east England had hoped to win the LG project.

A full investigation by the committee would be likely to include the questioning of William Hague, the opposition Conservative party

Sir John's office said yesterday. "It depends on what we find as to whether we report our findings to Mr Campbell or there are some other issues which should be reported to Parliament."

The revelation could cast a cloud over the expected announcement on Monday of a 1,000-job investment project by Taiwanese computer firm Acer in Cardiff, the Welsh capital. That has also been criticised by rival bidders at the Northern Development Corporation in England.

Mr Campbell's letter followed complaints by north-east England development chiefs about "unfair

levels of funding available to attract job-creating projects to Wales. He demanded an inquiry into the £247m grant to LG from the Welsh Development Agency, which was £167m more than that offered by its northern England rivals.

The Welsh Development Agency yesterday sought to play down the latest development, stressing that Sir John's move was entirely a routine response to Mr Campbell's correspondence.

The WDA has kept a low profile during the continuing debate over its funding, rejecting claims that it has "assumed" projects from other areas.

## Nissan output may rise by 50% after 2000

By John Griffiths in London

Nissan expects the rapid rise in car output at its factory near the northern England city of Sunderland to slow sharply next year.

Production hit a record of 271,000 cars this year and is expected to remain unchanged next year as the European car market stagnates. But Nissan expects a big boost to output early in the next century when the replacement for the Almera goes into production. It could lift output at Sunderland to 400,000 cars a year.

Production prospects have been boosted, according to Nissan's European executives, because the parent company in Japan has accepted that the Almera's replacement must have a considerably greater European design and styling input.

The Sunderland-built Primera was widely criticised for its blandness when launched last year. It is produced alongside the Micra, Nissan's six-year-old supermini, which is also due for a facelift next year.

Nissan's confidence in the future of its UK operations was expressed yesterday just a day after Toyota, Japan's biggest carmaker, said it planned to construct a second European plant at Valenciennes in Northern France rather than expand existing plant at Burnaston in the English Midlands.

In a recent study by the Economist Intelligence Unit, Toyota's Burnaston factory was ranked third in European productivity terms behind Nissan's Sunderland plant and General Motors' Eisenach plant in Germany, with Honda's English facility fourth.

● Ryobi, the Japanese car parts manufacturer, is to invest £27.8m (£46.4m) expanding its Northern Ireland die castings factory. Ryobi will be Northern Ireland's largest Japanese company, with total investment of £90m. The company is to receive a £2.8m grant from the UK government's Northern Ireland Industrial Development Board.

## UK NEWS DIGEST

## \$700m wiped off Railtrack



Shares in Railtrack, the privatised owner of the national rail network's track, plunged 84 pence to 996 pence in London yesterday following the announcement of a review of the way the company levies access charges to passenger train operators. The share price fell wiped £240m (£701.4m) off Railtrack's market value, reducing it to £5.44bn, but news of the regulator's review prompted price rises among companies owning formerly state-owned train operating franchises. Stagecoach, which owns South

West Trains, rose 84p to 785p while Go-Ahead with shares in two franchises rose 54p to 539p. The review, which will be carried out by John Swift, rail regulator, will look at the way Railtrack accounts for property profits, at who the way Railtrack accounts for track maintenance costs and benefits from any savings on track maintenance costs and at what is an acceptable overall rate of return. Passenger train operators provide 60 per cent of Railtrack's revenues, a total of £1.23bn in the six months to September. It made a pre-tax profit of £190m. Mr Swift said that his aim was to establish a framework "which provides challenging targets for future efficiency and for improvements in network performance and capability." Gerald Corbett, Railtrack chief executive, said "The regulator has a duty not to make it unduly difficult for Railtrack to finance its activities."

Charles Batchelor, London

## TELEVISION SPONSORSHIP

## Toyota signs five-year ITV deal

Toyota, the Japanese carmaker, has reached an agreement to sponsor all available programmes on the ITV terrestrial commercial television network on December 31 and January 1 in each of the next five years. The first stage of the £1m (£30m) deal will begin on December 31 this year as Toyota's new family car, the Avensis, begins a sponsorship of 19 programmes, running over 33 hours until midnight on January 1.

It will not include programmes which already have a regular sponsor, and programmes that broadcasting regulations do not allow to be sponsored, such as the news. The agreement is the first time a single UK television sponsor has agreed to put money behind a run of programming, instead of choosing an individual programme or series that matches its brands.

John Hardie, marketing and commercial director at ITV, said the sponsorship was "the most diverse, largest and longest future investment ever negotiated by any UK network, satellite or terrestrial."

## CENTRAL BANK

## Difference of opinion on rates

Speculation that some members of the Bank of England's monetary policy committee may have voted against November's rise in interest rates proved to be unfounded yesterday, but the minutes of the committee's deliberations indicate clear differences of opinion. The institution is the UK central bank.

The minutes show that the seven members of the committee voted unanimously to raise rates by a quarter-point to 7.25 per cent on 6 November. But they also indicate three strands of argument: one for no change, a second for a precautionary increase and a third for an increase in the expectation of more to follow.

"Presumably, the three views each reflect one or more members of the committee," said Michael Saunders, at Salomon Smith Barney. "The chances are that the agreement to hike by a quarter-point was a compromise, probably with the aim of keeping unanimity as much as possible."

## COAL MINING

## Blair promises deal over closures

Tony Blair yesterday made a surprise intervention in the coal crisis, promising a deal between the big three privatised generators and RJB Mining, Britain's biggest coal miner, that will forestall pit closures and redundancies for six months.

The prime minister said this would also give the government time to "consider the role of coal could play in meeting Britain's future energy requirements" and give the coal industry time to look at ways of improving its competitiveness.

RJB welcomed the prime minister's statement as a "constructive step forward and removes the threat to pits and jobs", but the generators were left divided and bewildered. National Power, the biggest generator and the one that has contracted to buy the most coal from RJB, said it had done all it could. "We have done a big deal [18m tonnes over three years] with RJB - that is fair," the company said.

PowerGen, which has signed no agreement with RJB and is seen as the source of the miner's difficulties, welcomed the announcement. Ed Wallis, chief executive, said: "The government has recognised that competition policy is no emergency policy." PowerGen, whose 5m tonne contract with RJB expires next March, said it was still looking for competitively priced coal.

Simon Holberton, David Wighton, London

## Regions fear development poachers

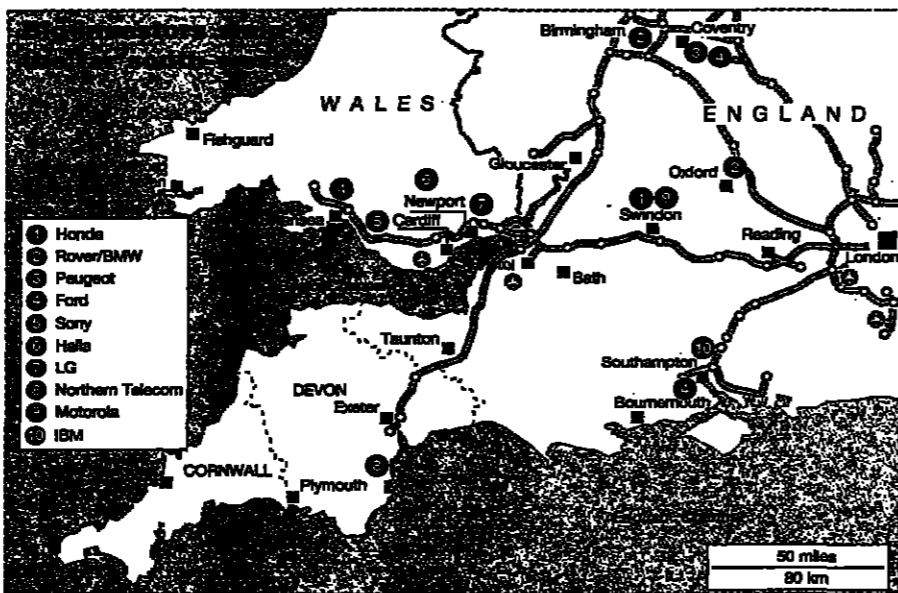
Local skirmishes echo big inward investment battles, Juliette Jowit writes

Some regional development bosses claim that companies in their areas are being wooed away with offers of grants, land, premises and wage subsidies - sometimes against the rules, but more often, they say, in subtle manipulation of the guidelines.

These local battles are being fought against a background of the more public struggle among Scottish, Welsh and English regions about big inward investment projects. The targets of such criticism include organisations in north-east England, and especially the many development agencies in Wales. They claim to deny that they are doing anything more than legitimately marketing themselves to companies with an interest in expanding operations.

Ken Martin, head of Devon and Cornwall Development International (DCDI), an offshoot of the Invest in Britain Bureau, has cited 10 examples of companies which claim to have been approached by rival areas, sometimes by more than one. His claims were made to a recent House of Commons trade and industry committee investigation of the investment dispute.

The 10 included US tool-maker Gleasons, which employs 800 people in Plymouth, Devon, and the privately owned Fitzgerald Lighting, which employs nearly 60 staff in Cornwall. For some years, West of England regions, particu-



larly Cornwall, have suffered growing unemployment from the loss of traditional industries such as mining and fishing, and now rely heavily on the tourism and holiday sector.

Unnamed complainants cited by Mr Martin included an electronics company asked to move to Newport to supply the £1.7bn (£3.8bn) development by LG of Korea, and a US company looking to expand in the UK which claims it was offered a package which could have meant closing its site in south-west England and moving all its UK operations to Wales.

Companies which have themselves complained include Nelson Stokes,

which makes hydraulic brakes in north Cornwall, and A.E. Rodda, which makes traditional Cornish dairy products. Nelson Stokes said early this year that it had been approached by agencies in Wales and north-east England while Rodda said last year it had been approached by two development agencies in Wales.

Evidence of such "poaching" attempts is mostly anecdotal, following telephone calls, with the accusing finger pointed sometimes vaguely at "the Welsh", sometimes more specifically at local councils and other small agencies. Mr Martin believes that such bodies are

used as a "convenient smokescreen" to seek out potential investors and then channel through financial aid or sites from the Welsh Development Agency.

The mailshots, cold calls and allegedly more focused attempts to lure companies away from Devon and Cornwall make it obvious that regulating such activities is fraught with difficulties. The line between advertising opportunities and "poaching" jobs is hazy at best.

The Welsh Development Agency, financed through the government's Welsh Office, is often portrayed as the arch-villain of such activities. But the agency insists that it would never

deliberately break the rules. "It's contrary to the rules to use public money to support a company moving from one place to another," said James Turner, managing director of the WDA's international division. "Where the opportunities exist will be in relation to expansion, where a company is growing and for whatever reason, either through skills available or lack of land or property, they want to expand their site and can't do it where they are. Those are the opportunities one can pursue."

One weakness in the prosecution argument is that no examples can be found of companies that have actually moved away - certainly not simply by transferring jobs. The English regions recognise the difficulty in legislating against "poaching" attempts, but want official recognition that it happens and should be investigated. They also want more money, which they see as the key to the proactive line in Wales and Scotland.

Michael Bourke, director of Swansea Bay Partnership in south Wales - financed by the WDA and local councils and cited by DCDI for allegedly asking a leisure company to move to south Wales - dismisses accusations from the English regions.

"I don't think they are doing themselves any favours," he says. "They keep making these accusations, but never come up with a name."

## Banks given assurance over payments in euro era

By Our Banking Editor

The Bank of England yesterday moved to reassure UK banks that ways would be found to allow them to make full use of the Target euro payment system even if their access to short-term liquidity borrowing from the European Central Bank is restricted.

The Bank is still fighting a rear-guard action against central banks in mainland Europe which argue that banks from countries outside European Monetary Union cannot expect the same access to liquidity as those from EMU countries.

However, the Bank yesterday listed arrangements which would allow UK banks to make use of

Target without ECB liquidity. Many national payment systems operate by totting up the transfers banks make to and from each other during the day and then settling up the net figure at the end.

In Target and other real-time payment systems, however, transfers are made instantly, so a bank can see its balances rise or fall

sharply during the day, depending on when it happens to make or receive payments.

Banks therefore need a supply of intraday credit to smooth out the peaks and troughs in their payments. But if the ECB does not supply that credit, "out" banks could queue their payments so that outbound euro payments were

not handed over until they had received any inbound payments they were expecting from other banks inside the EMU area.

Alternatively, banks could borrow euro liquidity through branches in the euro area, or the Bank of England could provide liquidity from its own euro resources.

## Regulators to track computer 'bomb' readiness

By Alan Cane and Paul Taylor

Financial regulators intend to track firms' preparedness for the "millennium bomb" - the problem of some computers' inability to distinguish between the 19th and 20th centuries - and will intervene where necessary to protect investors or market integrity, Howard Davies, chairman of the UK Financial Services Author-

ity, said yesterday. The FSA is the integrated regulator of the City of London.

He said that institutions which failed to prepare for the millennium faced disaster. Among likely consequences, he said that investors or depositors might be unable to access their money and assets.

"It could involve non-completeness of deals, market disruption, loss or degradation of customer records and

even, in the extreme, business collapse."

Mr Davies made it clear he saw the issue as a regulatory matter. "Each of the organisations within the FSA system is pursuing these issues with the firms it regulates," he said.

"Our consistent message to firms in the financial sector is that they should all by now have a compliance project in place which allocates

executive responsibility, requires regular reports to the board and furnishes the necessary resources."

Meanwhile, Professor Mike Smith of St Bartholomew's Hospital in London warned at a London conference organised by Taskforce 2000, the government-sponsored body charged with raising awareness of the problem, that as many as 1,500 hospital patients could die as a direct result of computer

failures in the first weeks of the year 2000. Prof Smith, an expert in both computing and health issues, said that by comparison there were 20 deaths allegedly resulting from the London Ambulance Service computer breakdown in 1992 which lasted for three days and affected only London.

Prof Smith said a detailed study of the effects of year 2000 problem on the state health service showed that

the government was either being "astonishingly complacent" or "showing a total misunderstanding" of the issue.

Prof Smith's study showed that most healthcare organisations would not achieve even modest protection from the year 2000 problem. The cost for the health service alone was likely to reach £500m (£835m) - but most trusts had not made any budgetary provisions.

## 'Loyalists' restive about Ireland talks

By John Knapman, Chief Political Correspondent

Concern is growing in Ireland that the British government's focus on measures to build nationalist confidence about the peace process are putting intense strain on the three year old ceasefire by Protestant "loyalists".

Officials involved in the peace process point to what they call "gesture politics." They cite high-profile announcements of withdrawals of British troops and an end to a requirement of police recruits to swear an oath of allegiance to the Queen.

The new direction of UK policy will be demonstrated today with the first visit to 10 Downing Street, London, residence of the UK prime minister, for more than 70 years by a Sinn Féin delegation. It will be led by Gerry Adams, the party president.



Hardline members of the Protestant Orange Order, which has branches in the US and Canada, stage a protest at its headquarters in their traditional orange-coloured regalia.

Tony Blair, the prime minister, said in the House of Commons yesterday that the meeting was not a concession to violence. "If they return to violence, they will go out of the [multi-party] talks," he said. As Sinn Féin had last year agreed to the

Mitchell principles of non-violence it was "absolutely essential" to treat them in the same way as other parties.

The seven-strong Sinn Féin group, which includes Martin McGuinness, the party's chief negotiator, and

Martin Ferris, a convicted former gunman, is expected to have an hour of talks with Mr Blair.

Mr Blair's aides acknowledge that Sinn Féin will extract maximum propaganda advantage from the meeting. However, they say

the group is being granted the same rights and access as other parties in the negotiations for a constitutional settlement for Ulster.

Meanwhile, anxiety was reinforced by a sit-in yesterday by some members of the Protestant Orange Order, who occupied its Belfast headquarters and forced its half-yearly meeting to be moved. Up to 100 members of the order's hardline Spirit of Drumcree faction took over the House of Orange.

The group is opposed to the re-routing of traditional parades through city streets, as happened several times last summer. They want Robert Saulters, grand master of the Orange Order, replaced as they consider him too moderate. Jeffrey Donaldson, the Ulster Unionist party MP and retiring deputy grand master of the order, warned of a "very serious split."

Two faces, Page 10

## IN THE NAME OF ALLAH

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## Cinema/Nigel Andrews

# Growing into the Bond role

**TOMORROW NEVER DIES**  
Roger Spottiswoode

**A FURTHER GESTURE**  
Robert Dornhelm

**I KNOW WHAT YOU DID LAST SUMMER**  
Jim Gillespie

**PERSONS UNKNOWN**  
George Hickenlooper

The new James Bond enterprise comes with an intriguing plot. A group of media masterminds bent on world domination rock the money markets with an explosive overspend. Calamities unspool, major and minor. The project director fights with the "ideas man", a top woman employee bursts into tears when handed a radical new work-brief, and two key players, male and female, quarrel publicly. She accuses his beard stubble of scrapping her face, he slaps her off for charmlessness in the press. And all this is only off the screen. That the problem-ridden *Tomorrow Never Dies* ever reached cinemas, we owe to the Broccoli empire's determination not to let a cash cow expire before it comes to market - or even to look as if it might have. The cow here is a brindled thing, part bad part good. But it moves like merry thunder. This cow could win

the Grand National by several lengths and a hedge. We know we are safe right from the pre-credits sequence. Pierce Brosnan's Bond (he with the stubble that troubled lead actress Teri Hatcher) is at a terrorist boot sale somewhere in ex-USSR and must hijack a warhead-carrying fighter plane as NATO prepares to bombcrash the party. The suspense is agonising. Never mind NATO. We know there are only a few precious, ticking minutes before the Shirley Bassey soundalike will launch into the title song ("To-moh-row nev-ahh dies") while computer graphic nudes go whirly all over the screen.

Thereafter it is cars, bedrooms, explosions and double entendres, in no particular order. And there is Jonathan Pryce in fine form as a world media tycoon, a sort of Rupert Murdoch with extra madness. His character's self-appointed mission is to provoke war between China and Britain, for reasons I understood at the time but am a little hazy about now.

The Bond films stuttered into ordinariness in the late 1980s, when Timothy Dalton rashly tried to play him as a human being. Broccoli, improving on his own dull start, is now accumulating the essentials: smugness, smartness and an ear-to-ear, perfectly groomed superficiality. He gained 20 pounds for the role - pounds weight not pounds sterling, which were \$5m - and he fills out the suits. He also has the right style when telling a Danish lover "I always enjoy studying a new tongue,"

which leads to Ms Money-penny's comment during a simultaneous phone call, "You always were a cunning linguist, James."

The remote-control BMW, the car chase through downtown Saigon and the pyrotechnical climax in Pryce's billion-dollar armoured houseboat, with fine views of the South China Sea and the end of the world, are all good value. Director Roger Spottiswoode - he who tangled with screenwriter Bruce Feirstein, first firing then rehiring him - earned his action licence by editing for Peckinpah and directing *Under Fire*; he is clearly the man for the 007 job.

My only quibble concerns the supporting stalwarts. "M", when played by that fine walking head-cold Bernard Lee, used to have a whole briefing scene to himself. Here Dame Judi Dench

must lob guerrilla one-liners from a standing position in op rooms. (No wonder she was upset when even these were changed.) And Desmond Llewellyn's Q surely demands more than a tiny cameo. Here, he barely has time to list the BMW's rockets, smashproof windows, high-volt electrified bodywork, metal spikes to puncture enemy tyres, satellite downloader, nuclear touchpad and, we trust, cigarette lighter and AM/FM radio.

*A Further Gesture* is an odd title: the phrase often completes itself with "would be futile." This is true, alas, of Channel Four's weekly conceived political drama. Stephen Rea, credited with the story idea that inspired *Ronan* (Face) Bennett's script, wears his most lugubrious basset-hound look as the New York-fled IRA jail-

breaker who risks blowing his cover by helping a Guatemalan woman's revenge mission against a compatriot torturer.

Ergo: it is a tale of two paramilitarisms. It is also a cauchely internationalist film, aimed at pleasing every art-and-agitprop market in sight. Directed by an Austro-Romanian (Robert Dornhelm of *Requiem for Dominic*), its credits read like a who-the-hell-is-who of global cinema. Britain's Alfred Molina plays a fellow Hispanic to Rosana Pastor's heroine, while a Polish cinematographer, Japanese editor and German producer help to complete the multicultural hell. Unsurprisingly, the film has no sense of belonging to any reality beyond the camera's range.

Christmas movies are wonderful things. If you think

your children would be ill-served by a tale of urban guerrillas, there is always *I Know What You Did Last Summer*. Here they can watch a group of high-school teenagers chased, terrorised and eviscerated by a mad, possibly dead fisherman.

Kevin Williamson, who scripted the praised horror film *Scream*, penned this tale of blood and vengeance. Scottish television's Jim Gillespie directs with minimal flair. These back-and-forth films were high fashion in the late 1970s/early 80s, when Halloween became an annual weekend for masked maniacs and the *Friday* 13th series spiralled into double figures. Today, though, in the age of *Luxor* and other enormities, we may feel we get enough of it at home.

\* "Ever have a body that

won't stay dead?" is the opening question in the film's publicity notes. The answer is yes, and twice in one press-show day this week. In *Persons Unknown*, another pre-Christmas offering from the seasonally insensitive, an entire movie is deceased but refuses to lie down. Joe Mantegna, Kelly Lynch and J.T. Walsh, low-lifers living on the edge of the law, chase each other all over America's high sierras without once indicating why we should care.

There are guns, knives, stolen money, cattle prod, runaway wheelchairs, with little rhyme and less reason to any of them. George (Hearts Of Darkness) Hickenlooper's direction - low angles, bits of slow motion, Roeg-ish intercutting - makes trash doubly insulting by packaging it as art.

## Theatre/Alastair Macaulay

# Family attractions

Incest is not a new theme in plays (or novels, or operas, or films). It is, however, still so infrequent that, in watching the brother-sister incest of Richard Nelson's new play, *Goodnight Children Everywhere*, it is very easy to recall some of the previous depictions of the subject.

Since this play is being presented by the Royal Shakespeare Company, one naturally thinks of *'Tis Pity She's a Whore*. But anyone who knows Wagner's *Die Walküre* will remember that yet more. Both that opera and Nelson's play show, very precisely, how incestuous attraction commences between a young married woman and the brother she has not seen for years. This resemblance between these otherwise dissimilar works may be accidental; Nelson's play is not the kind of literary drama that places itself knowingly in some kind of incest canon. Still, in both cases, the incestuous desire is, from the first, also adulterous; and it arises - instinctively, unstoppably, touchingly - from the separation of orphan siblings since childhood.

The year is 1945. Peter, now aged 17, returns from evacuation in Canada to his three sisters. Betty is 21, Vi is 19, and neither is married; Ann, who is 20, is not

only married to Hugh, a doctor in his early 50s, but is also far gone in pregnancy. And they all live in the same flat. There is plenty else going on. Hugh has, we learn, a girlfriend on the side himself; Vi is a wannabe actress who has built up quite a bit of sexual experience; Betty is a faintly hysterical virgin with a crush on Hugh.

As for Ann, she fully understands the complexity of the attraction she feels to her brother: he is the baby she once helped to bathe and a counterpart to the baby in her womb, he is the beloved little brother from whom she has long been sundered, and now that he has returned in virile manhood - he is also even the father who, during the war, died and left them all orphans.

Peter himself says remarkably little. Indeed, he is often remarkably passive, a sweetie who is inclined to do what his sisters tell him to do. But, unlike each of them, he is never in denial about his feelings. And the most affecting feature of Ian Brown's RSC production is the performance

that young Simon Scardfield gives as Peter. Vulnerable, huggable, impulsive, he is the baby brother of everyone's dreams, and the Oedipal part of his feeling for Ann is perfectly transparent. There is one scene in which Ann talks and talks and talks to him, her thoughts bouncing this way and that, and what one hangs on to is Scardfield, who just listens and watches her. When she advances towards him, he sits up, as if drawn to a magnet; when she turns away, he sinks back but his eyes are always on her, and the steadiness of his emotion is the anchor of the scene.

Around this clear core, the rest of Nelson's play seems subtle but unfocused. There is intelligent and sensitive writing everywhere, but it takes a long time till the play seems of much consequence. Interesting if you're interested in historical fiction about families reunited after evacuation, you think. And, though Hugh, Betty, and Vi each have telling

scenes, we can't help feeling that Nelson keeps shunting them offstage at regular intervals to concentrate on his main theme.

Ian Brown has cast Peter's three sisters deliberately to emphasise their girlish excitability. Cathryn Bradshaw is Ann, Sara Markland is Betty, and Robin Weaver is Vi: the degree to which these children are still orphans and scarred by childhood - important in Nelson's text - could not be more obvious. Bradshaw's artless sweetness and Weaver's wry humour are both welcome, but the nursery climate is sometimes wearisome.

Eventually, however, it is the point. In the final scene, as Nelson's play starts to move on beyond incest, it becomes affectingly clear that its real point is the degree to which these adults, reunited in their childhood home, still feel like orphaned children.

In RSC repertory at The Other Place, Stratford-upon-Avon. Sponsored by RSC Platinum Corporate Members.



Scarred childhood: Robin Weaver and Simon Scardfield

## Theatre

# Less mythic than corny

It is hard to believe that John B. Keane's first play is nearly 40 years old now: it seems much, much older. Although *Sive* is set in the Ireland of the late 1950s, Keane's heightened, poetic diction owes a good deal to Yeats, his cast of quaint Irish types seem to have their roots in Synge, or even the bog-trotting comedies of Dion Boucicault, while the plot is pure folk-tale: *Sive* (it rhymes with "thrive"), an orphan who lives with her uncle and his wife, is to be forced into marriage with a much older man; but her lover, her grandmother and a pair of tinkers plot to save her.

Ben Barnes, director of this co-production between the Tricycle and the Watford Palace, notes that in earlier productions of Keane's plays he sought to bring out the realism and social comment they contain. The apparent fastidiousness of *Sive* is deliberate, a means of drawing attention to the clash of old and new worlds that rural Ireland was witnessing at the time. *Sive* is illegitimate and well educated, neither of them qualities likely to enhance her prospects; and the countryside, just beginning to see the first glimpses of prosperity, is still haunted by the Great Hunger. *Sive* is always within a short step of the modern world and the promise of happiness with her young lover, but is pulled down by a tangle of greed and tradition.

For this production, however, Barnes eschews realism to "unleash the elemental and mythical dimension of *Sive*". Unfortunately, this village Romeo and Juliet emerges here as less mythic than corny, the characters clichés rather than archetypes: the villainous local matchmaker has a game leg to match his deformed character; the uncle is a decent man who would like to do the right thing, but is browbeaten by his shrew of a wife; the tinkers are twinky rogues, singing jaunty tunes. The characters speak in a high-flown rhetoric - "Never!" vows the uncle, when marriage to the old man is proposed, "If the sun, moon and stars rushed down out of the heaven and split the earth!" which quickly starts to sound risible. Even the tinkers' curse ("May the small devour his corpse") one of the high-points of the evening, becomes tedious the third or fourth time around.

At least Keane's peasant rhetoric is heartfelt and authentically Irish - in comparison, the faked, ironic Irishness of Martin McDonagh's more recent plays looks tawdry. This is not an unenjoyable evening; but it is never an affecting one.

Robert Hanks

At the Tricycle Theatre, London NW8 to January 17 (0171-328 1000).

## INTERNATIONAL

# ARTS GUIDE

### AMSTERDAM

**EXHIBITIONS**  
Stedelijk Museum  
Tel: 31-20-5732011  
www.stedelijk.nl  
Gabriel Orozco: Recordings and Drawings. Display of recent video works by the Mexican artist, filmed in New York and Amsterdam; to Dec 14

**OPERA**  
Netherlands Opera, Het Muziektheater  
Tel: 31-20-551 8911  
Dialogues des Carmélites: by Poulenc. New production conducted by Yves Abel in a staging by Robert Carsen. Cast includes Joan Rodgers and Sheri Greenawald; Dec 13

**BERLIN**  
**CONCERTS**  
Deutsche Oper  
Tel: 49-30-34384-01  
Carmine Burani: by Orff. Conducted by Rafael Frühbeck de Burgos. With the Clemencio

Consort conducted by René Clemencio; Dec 14  
**Philharmonie**  
Tel: 49-30-2548 8354  
Berlin Philharmonic Orchestra: conducted by Claudio Abbado in works by Wagner, Schumann and Beethoven; Dec 12, 13, 14

**DANCE**  
Deutsche Oper  
Tel: 49-30-34384-01  
Deutsche Oper Ballet: Rosalinda, choreographed by Ronald Hynd to music by J. Strauss; Dec 11

**OPERA**  
Deutsche Oper  
Tel: 49-30-34384-01  
Die Zauberflöte: by Mozart. Staged by Günter Krämer, with sets and costumes by Andreas Reinhardt; Dec 12  
Hänsel und Gretel: by Humperdinck. Conducted by Olaf Henzold in a staging by Andreas Homoki; Dec 13

**BOLOGNA**  
**OPERA**  
Teatro Comunale  
Tel: 39-51-529 999  
www.nettuno.it/bo/  
La traviata: by Verdi. Revival conducted by Daniele Gatti in a staging by Hugo de Ana; Dec 11

**CHICAGO**  
**OPERA**  
Lyric Opera of Chicago  
Tel: 1-312-332 2244  
www.lyricopera.org  
Amistad: world premiere of

Anthony Davis's new work about the 19th century anti-slavery campaign. Dennis Russell Davies conducts a production by George C. Woolfe; Dec 11

**EDINBURGH**  
**EXHIBITIONS**  
Scottish National Portrait Gallery  
Tel: 44-131-624 6200  
Portraits of Excellence: a series of photographs of distinguished academics at the University of Edinburgh, commissioned according to an 18th century University tradition; to Feb 1

**LONDON**  
**EXHIBITIONS**  
Barbican Centre  
Tel: 44-171-638 8891  
Don McCullin - Sleeping With Ghosts: major retrospective of work by the photo-journalist which spans his career from 1959 to the present. Includes prints drawn from the major news stories he covered, and more recent still lifes and landscapes; to Dec 14  
James Ensor 1860-1949: more than 140 works by Belgium's foremost expressionist artist. Includes early studies of Ostend, portraits of the artist's family and friends, and the carnival paintings for which he is best known; to Dec 14

**OPERA**  
Shaftesbury Theatre  
Tel: 44-171-379 5399  
The Royal Opera: Paul Bunyan, by Britten. New production

staged by Francesca Zambello and conducted by Richard Hickox; Dec 11, 13, 15

**LOS ANGELES**  
**CONCERTS**  
Dorothy Chandler Pavilion  
Tel: 1-213-365 3500  
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Ravel, Britten and Debussy. With soprano Sylvia McNair and the Los Angeles Master Chorus; Dec 11, 13, 14

**MANCHESTER**  
**CONCERTS**  
Bridgewater Hall  
Tel: 44-161-907 9000  
Tosca: by Puccini. Concert performance given by the Hallé Orchestra and the European Orchestra in their first collaboration. Kent Nagano conducts; Dec 11, 14

**MILAN**  
**OPERA**  
Teatro alla Scala  
Tel: 39-2-88791  
Macbeth: by Verdi. Conducted by Riccardo Muti in a staging by Graham Vick, with designs by Maria Björnson. Casts vary; look out for Maria Guleghina and Roberto Alagna; Dec 13

**NEW YORK**  
**CONCERTS**  
Lincoln Center  
Tel: 1-212-721 6500  
www.lincolncenter.org

New York Philharmonic: conducted by Kurt Masur in works by Sereck, Bacewicz, Rimsky-Korsakov and Dvorák. With trombone soloist Joseph Alessi; Avery Fisher Hall; Dec 11, 12

**DANCE**  
New York City Ballet, New York State Theater  
Tel: 1-212-870 5570  
George Balanchine's The Nutcracker; Dec 11, 12, 13, 14

**OPERA**  
Metropolitan Opera, Lincoln Center  
Tel: 1-212-362 6000  
www.metopera.org  
The Rake's Progress: by Stravinsky. New production by Jonathan Miller, conducted by James Levine. Cast includes Samuel Ramey and Dawn Upshaw; Dec 11

**PARIS**  
**CONCERTS**  
Salle Pleyel  
Tel: 33-1-4561 6589  
Orchestre de Paris: conducted by Wolfgang Sawallisch in works by Beethoven. With piano soloist Radu Lupu, soprano Luba Orgonasova, mezzo-soprano Marianne Rørdahl, tenor Herbert Lippert, bass René Pape. Choir led by Arthur Oldham; Dec 11, 13

**OPERA**  
Opéra National de Paris, Opéra Bastille  
Tel: 33-1-4473 1300

Der Rosenkavalier: by Strauss. New production conducted by Edo de Waart in a staging by Herbert Wernicke. Cast includes Renée Fleming, Susan Graham and Barbara Bonney; Dec 11, 14

**Opéra National de Paris, Palais Garnier**  
Tel: 33-1-4349696  
The Merry Widow: by Franz Lehár. Armin Jordan conducts a new production directed by Jorge Lavelli, with sets by Antonio Lagarto; Dec 11, 14

**Théâtre des Champs Elysées**  
Tel: 33-1-49525050  
Fidelio: by Beethoven. Production staged by Patrice Caubert and Moshe Leiser, with the Orchestre des Champs-Elysées and the Choir of the Welsh National Opera. Conducted by Louis Langrée; Dec 12  
Leonore: by Beethoven. Production staged by Patrice Caubert and Moshe Leiser, and conducted by Louis Langrée. With the Orchestre des Champs-Elysées and the Choir of the Welsh National Opera; Dec 13

**TOKYO**  
**EXHIBITIONS**  
Museum of Contemporary Art  
Tel: 81-3-5245 4111  
Loans from the Centre Georges Pompidou: selection of 127 works from the Musée National d'Art Moderne in Paris, on loan while it is refurbished. Artists represented include Matisse, Chagall, Picasso and Tinguely; to

Dec 14  
**VIENNA**  
**EXHIBITIONS**  
Kunsthistorisches Museum  
Tel: 43-1-525240  
Pieter Brueghel and Jan Brueghel: comprehensive survey of the art of the two sons of Pieter Brueghel the Elder. Includes around 130 paintings and 20 works on paper by Jan Brueghel the Elder (1568-1625) and his less celebrated brother Pieter Brueghel the Younger (1564-1637/8). The exhibition also includes a dozen important works by their father; to Apr 14

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## COMMENT &amp; ANALYSIS

## Personal View • Jeffrey Sachs

## FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL  
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Thursday December 11 1997

## At risk in Korea

Only a week after it was assembled, the International Monetary Fund's \$57bn rescue plan for South Korea seems to be coming unstuck. Had it done what was intended, the IMF package should by now have stabilised the Korean currency and prompted a resumption of capital inflows which would help the country pay its short-term debts. Instead the won is in free fall, reserves remain perilously close to exhaustion and the risk is growing that private-sector Korean borrowers will end up defaulting on their foreign debt.

The post-mortems must already be starting. Doubtless the markets are overshooting in their pessimism, given Korea's narrowing balance of payments deficit. But the IMF programme does look questionable in seeking to tighten credit in an economy already at risk from slumping demand.

Korea has also failed to deliver its stubborn efforts to avoid closing two conspicuously failing commercial banks signal a lack of serious intent to restructure its bloated economy. More urgent, as the crisis unfolds, is the question of what to do next. The IMF and the industrial countries that contributed to its package must decide whether to commit more money and reinforce their existing approach, or whether to allow a default and concentrate

on clearing up the mess. The risks in the latter approach are large. A default by a Korean bank in the international money market could trigger a contagious loss of confidence, sucking into the crisis banks from a range of emerging nations and exacerbating concern over Japanese banks. The consequences for the financial system would be severe.

Yet it is difficult to see what can now be done to restore market confidence in Korea, especially given the approaching presidential elections. Accelerating the disbursement of the funds already committed in the IMF package might lance the immediate problem. Confidence will not be restored, however, while the government dithers about reform.

Had it closed Korea First and SeoulBank and taken over their foreign liabilities, the market might have believed genuine restructuring was on the way. But having disappointed yet again, Seoul will have to work harder still to prove it accepts the need for structural change.

As long as it ducks that challenge, the more governments and central banks will have to consider how to shore up the system as a whole. The central banking fraternity must stand ready to deal with the possibility of serious problems in the interbank market spreading from Korea.

## Eastward ho!

Eight years after the revolutions in eastern Europe, the EU is almost ready to negotiate entry terms with some of the states that then threw off the communist yoke. At Luxembourg this weekend leaders of the existing 15 members will formally name the states chosen for this honour - Czech Republic, Estonia, Hungary, Poland, Slovenia, along with Cyprus - while doing their best not to discourage those who, for the moment, will be asked to wait on the doorstep.

This differentiated approach has not been without its critics. Several governments argued for a "regatta" with all candidates starting negotiations at once and each reaching the finishing line as and when it could. But that would have been a messy procedure, producing a series of separate accession treaties, all requiring ratification in every member state. In the end it makes more sense to select a group of states with a reasonable hope of concluding negotiations within two or three years. This procedure also has the merit of rewarding those states which have shown the greatest courage and stamina in undertaking necessary reforms.

Yet it would also be quite wrong to focus all the EU's efforts in the next few years on these favoured candidates, leaving the others to fall farther and farther behind. This would be

unjust, since the difference in readiness is one degree not of kind. Bulgaria, Latvia, Lithuania and Romania may have been slower to embark on reforms than the favoured five, but they have now done so, and are entitled to expect help in catching up.

To neglect them would also be unwise, since the stability of central Europe can only suffer if new divisions open up within the region. For the same reason Slovakia, however unsatisfactory its current politics, must not be cast into outer darkness. On the contrary, contacts with it should be cultivated, so that the elements in Slovak society which uphold democratic values, rejecting the populism and ethnic exclusivism of the present leadership, do not feel abandoned to their fate.

The same logic must apply to Turkey. There are many good reasons why it would not make sense to open membership negotiations with Turkey next year, as the present Turkish government is itself realistic enough to admit. But Turkey, an associate member of the EU since 1963, can hardly be expected to help smooth Cyprus's path to membership if denied the right to be judged by the same criteria itself in due course. Worse, to exclude any state on *a priori* grounds of culture or religion would betray the EU's own principles.

## Australian guilt

Political leaders under pressure to project a more resolute, macho image are always in danger of making mistakes. So it is with John Howard, Australia's prime minister. His row with the country's senate over the land rights of native aborigines seems to be pushing the country towards an early general election with damaging consequences for Australia's international standing.

After the immigration controversy created by Pauline Hanson, an independent member of parliament, Australia cannot afford a campaign that might inflame racial tensions. Its laudable efforts to build closer economic and political links with Asian neighbours could be badly damaged. At home the campaign would create painful divisions between urban and rural voters as well as between black and white.

Settling the issue of native land rights is undoubtedly a crucial task. Like New Zealand, Australia is struggling with collective guilt over past injustices towards its indigenous population. But this is just one more reason for trying to settle the issue by compromise and general agreement rather than by confrontation.

Some legislative response was inevitable after last year's so-called Wik case, in which the high court decreed that native title rights could co-exist with farmers' grazing leases. The judgment created great uncertainty over precedence, not only in the rural economy but also among Australia's mining companies, whose activities could also conflict with native title.

The senate's failure to pass Mr Howard's subsequent legislation setting out the limits on native rights would matter less if the prime minister had not foolishly insisted that it be passed intact. Now that his proposals have passed the lower house a second time, the senate must agree to the bill within three months. Otherwise, the constitution allows Mr Howard to dissolve both houses and call a general election.

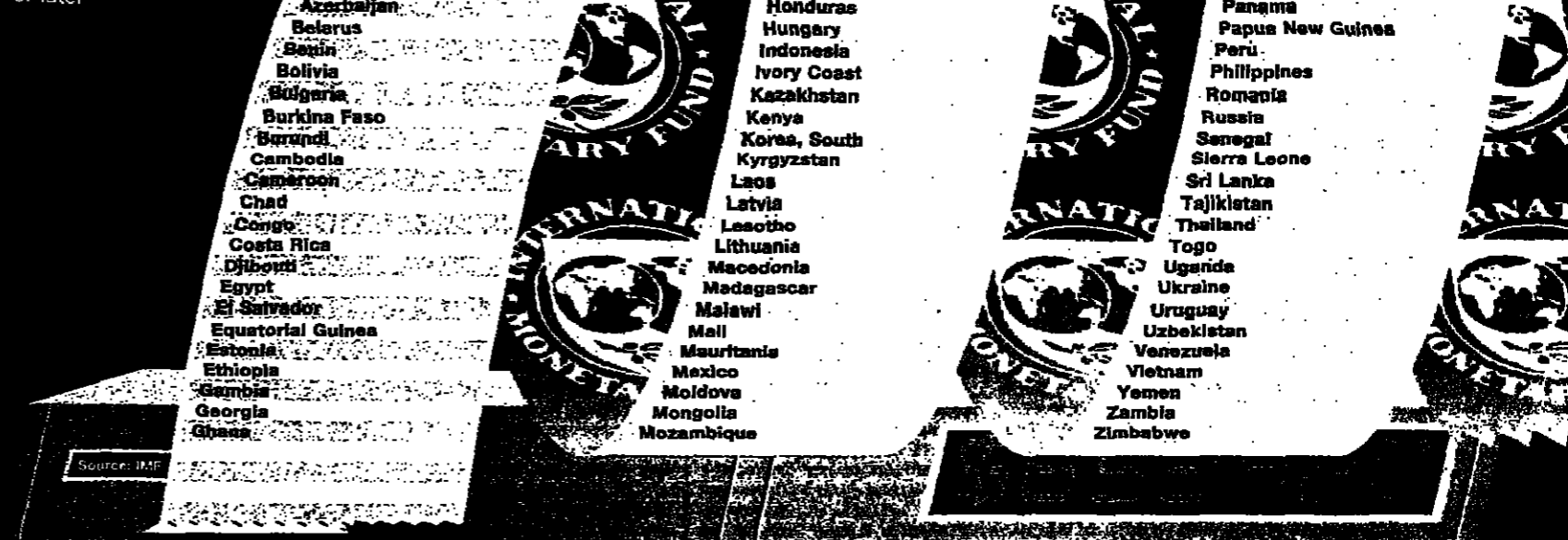
Tactically there may be an advantage for him to do so. He is trailing in the polls and must go to the country in 1999 anyway. An election caused by his unyielding stance on native title rights could ensure that he retains important seats in rural Queensland and Western Australia, which the opposition Labour party needs to win to unseat his coalition.

But such an outcome is by no means certain, and the price looks high when the possibility of compromise remains. The differences between Mr Howard and the finely balanced senate are bridgeable. With a dose of goodwill and careful negotiation, Australia could have a workable solution to the problem. If he could deliver this, Mr Howard might acquire a reputation for statesmanship that could impress the voters.

Among other things, the former Deloitte & Touche partner was behind the creation

## IMF: is it spiralling out of control?

Countries with IMF programmes during 1997 fiscal year or later



## Power unto itself

In this article, the head of the Harvard Institute for International Development explains why the IMF needs reassessment

It is time that the world take a serious look at the International Monetary Fund. In the past three months, this small, secretive institution has dictated economic conditions to 350m people in Indonesia, South Korea, the Philippines, and Thailand. It has put on the line more than \$100bn of taxpayers' money in loans.

These bailout operations, if handled incorrectly, could end up helping a few dozen international banks to escape losses for risky loans by forcing Asian governments to cover the losses on private transactions that have gone bad. Yet the IMF decisions have been taken without any public debate, comment, or scrutiny.

While it pays lip service to "transparency", the IMF offers virtually no substantive public documentation of its decisions, except for a few pages in press releases that are shorn of the technical details needed for a serious professional evaluation of its programmes. Remarkably, the international community accepts this state of affairs as normal.

The world waits to see what the Fund will demand of country X, assuming that the IMF has chosen the best course of action. The world accepts as normal the idea that crucial details of IMF programmes should remain confidential, even though these "details" affect the well-being of millions. Staff at the Fund, meanwhile, are unaccountable for their decisions.

The people most affected by these policies have little knowledge or input. In Korea, the IMF insisted that all presidential candidates immediately "endorse" an agreement they had no part in drafting or negotiating - and no time to understand.

The situation is out of hand. However useful the IMF may be to the world community, it defies logic to believe that the small group of 1,000 economists on 19th Street in Washington should dictate the economic conditions of life to 75 developing countries

with around 1.4bn people.

These people constitute 57 per cent of the developing world outside China and India (which are not under IMF programmes). Since perhaps half of the IMF's professional time is devoted to these countries - with the rest tied up in surveillance of advanced countries, management, research, and other tasks - about 500 staff cover the 75 countries. That is an average of about seven economists per country.

One might suspect that seven staffers would not be enough to get a very sophisticated view of what is happening. That suspicion would be right. The IMF threw together a draconian programme for Korea in just a few days, without deep knowledge of the country's financial system and without any subtlety as to how to approach the problems.

Consider what the Fund said about Korea just three months ago in its 1997 annual report. "Directors welcomed Korea's continued impressive macroeconomic performance [and] praised the authorities for their enviable fiscal record." Three months ago there was not a hint of alarm, only a call for further financial sector reform - incidentally without mentioning the *chaebol* (conglomerates), or the issue of foreign ownership of banks, or banking supervision that now figure so prominently in the IMF's Korea programme.

In the same report, the IMF had this to say about Thailand, at that moment on the edge of the financial abyss. "Directors strongly praised Thailand's remarkable economic performance and the authorities' consistent record of sound macroeconomic policies."

With a straight face, Michel Camdessus, the IMF managing director, now blames Asian governments for the deep failures of macroeconomic and financial policies that the IMF has discovered. It would have been more useful instead, for the IMF to ponder why the situation looked so

much better three months ago, for therein lies a basic truth about the situation in Asia.

There is no "fundamental" reason for Asia's financial calamity except financial panic itself. Asia's need for significant financial sector reform is real, but not a sufficient cause for the panic, and not a justification for harsh macroeconomic policy adjustments. Asia's fundamentals are adequate to forestall an economic contraction: budgets are in balance or surplus, inflation is low, private saving rates are high, economies are poised for export growth.

Asia is reeling not from a crisis of fundamentals, but from a self-inflicting withdrawal of short-term loans. One that is fuelled by each investor's recognition that all other investors are withdrawing their claims. Since short-term debts exceed foreign exchange reserves, it is "rational" for each investor to join in the panic.

Without wider professional debate, the IMF has decided to impose a severe macroeconomic contraction on top of the market panic that is already rolling these economies. Consider the Korea programme (or at least those parts that have been announced to the public). The won has depreciated by around 80 per cent in the past 12 months, from around 840 a dollar to a record low of 1,556 yesterday; this currency depreciation will force up the prices of traded goods. Yet despite that, the IMF insists that Korea aim for an essentially unchanged inflation rate (5.2 per cent in 1998, in comparison with 4.3 per cent in 1997). To achieve unchanged low inflation in the face of a huge currency depreciation, Korea will need a brutal monetary squeeze. And indeed this is just what the Fund has ordered. Short-term interest rates jumped from 12% per cent to 21 per cent upon the

signing of the programme, and have since risen further.

The Fund argues that these draconian monetary measures are "to restore and sustain calm in the markets" and "[to] demonstrate to markets the government's resolve to confront the present crisis". It is hard to see how recessionary monetary policy will restore calm. Indeed the panic has so intensified since the signing of the agreement that Korean banks may now be on the verge of outright default. Just one day after the measures were unveiled, the 11th largest conglomerate declared bankruptcy when Korean banks abruptly refused to roll over its short-term debts. In recent days more well-known local companies have gone under.

In addition to the rise in interest rates, the IMF is insisting that fiscal policy be tightened by 1-1/4 per cent of GDP. On top of this, the IMF required that 9 out of 30 merchant banks suspend operations. The IMF is aiming for Korean growth to fall to 2.5 per cent in 1998 from 6 per cent in 1997. But the projected slowdown may turn out to be the least of Korea's worries by next year, since the underlying macroeconomic measures could easily push the economy into outright contraction. None of this overall makes sense for an economy that was (rightly) judged to be pursuing sound macroeconomic policies just months earlier.

A better approach would have been for the IMF to stress the strengths rather than the weaknesses of the Korean economy, thereby calming the markets rather than further convincing them of the need to flee the country. Months ago, when the financial crisis began, the Fund could have quietly encouraged Japan, the US and Europe to provide some credit support to the Bank of Korea. It might well have worked with the major banks to encourage them to roll over their short-term debts without inflating the panic. With appropriate

confidence-building measures, Korea could probably have got by with a modest slowdown in growth, no credit crunch, and a realistic time horizon of a few years to complete its needed financial reforms.

In more than six dozen developing countries, the IMF is in a position to choose make-or-break financial policies. While its instincts are often correct, they can sometimes be wrong, with serious consequences.

In recent years, the IMF mis-handled the Russian reforms (for example, by insisting for more than a year that all 15 successor states to the Soviet Union share a common currency, thereby delaying stabilisation and undermining the political support for reform). In Bulgaria, the IMF signed a programme in July 1996 based on 2.5 per cent growth and 20 per cent inflation in 1997. Instead, Bulgaria has suffered an outright collapse of gross domestic product of more than 10 per cent, and inflation in the hundreds of per cent. The IMF (in common with others) failed to foresee the Mexico crisis in 1994, and the Asian crisis in 1997.

Three general conclusions can be reached. First, the IMF is invested with too much power: no single agency should have responsibility for economic policy in half the developing world.

Second, the IMF's executive board should do its job of overseeing the staff, rather than simply rubber-stamp the staff's proposals. It is high time the board consult outside expertise in the exploratory stages of IMF operations. It should also canvas international opinion about the origins and policy implications of the Asian crisis.

Third, IMF operations should be made public, so that professional debate and review can help ensure the highest possible professionalism of the institution, especially since (for all its faults) the Fund will surely continue to play an important role for many years in the future.

## OBSERVER

## Whole hill of beans

Michael Sutton is about as important as bean-counters come. So the announcement that the US Securities and Exchange Commission's chief accountant is stepping down next month - "to pursue personal business interests" - has stirred up plenty of interest.

It's not just American accounting types who should take note of who replaces the tough-talking Sutton. Despite being a staunch defender of US financial reporting, he's been open-minded enough to back Sir Bryan Carsberg's ambitions project to harmonise world stock market accounting requirements.

The crunch comes next year, when the SEC passes judgment on Sir Bryan's standards. Sutton won't be around to have his say. But the views of his successor will certainly count.

Sutton this week won full praise from SEC chairman Arthur Levitt for helping to secure "sound markets" by fighting for fair and rigorous accounting standards. Some bruised opponents might say that, on occasion, he fought a bit too hard.

Among other things, the former Deloitte & Touche partner was behind the creation

of the Independence Standards Board - a body designed to make sure auditors remain independent.

With the Big Six accounting firms trying to push through global mergers, it's a watchdog that could soon have something to bark about.

## Ring the changes

So who's going to emerge at the helm of Greek telecoms operator OTE? Socialist government placeman and former party treasurer Petros Lambrou stepped down as chief executive last month, on the orders of prime minister Costas Karamanlis; he now faces the thankless task of reforming the loss-making Agricultural Bank.

To restructure OTE's international shareholders - the company is 20 per cent privatised - headhunters Egon Zehnder were asked to find a top telecoms manager from abroad. But no suitable candidates could be found; the choice is now between two in-house candidates, both academics with strong Socialist party links.

The prime minister's man is George Chrysosouris, an affable former MIT teacher who sits on OTE's board. His rival is the reclusive Christos Kazantzis, who earned his PhD in Britain and runs OTE's finance department. He is backed by

influential economy minister Yannis Papantoniou.

A decision by a special cabinet committee is already 10 days overdue. But it is a ticklish problem. Chrysosouris knows more about telecoms, but Kazantzis knows more company - and party - secrets.

## Bit cross

France's political cohabitation continues to find strange situations. Jacques Chirac, the Gaullist president, used yesterday's cabinet meeting to lay into "this" leftwing government's proposals for a 35-hour working week. He then calmly walked into an adjoining room in the Elysee Palace to decorate Socialist prime minister Lionel Jospin with the Grand Cross of the National Order of Merit. Apparently PMs traditionally pick up the gong when they're clocked up six months in office. So much for Chirac's desire to create a meritocratic honours system.

## Fly with me

Tour guides from Los Angeles and Bangkok should start learning Hungarian. Hordes of Magyar pensioners are about to descend thanks to an initiative by the country's wily prime minister Gyula Horn.

The PM announced in cavalier fashion this week that pensioners would get free travel on the state railways, inter-city buses and - faster your set belts - the off-season flights of national flag carrier Malev. The airline has since been deluged with enquiries from over-65s eager to see New York's JFK, never mind that their pensions would barely cover the cost of a subway ticket downtown.

Malev booking clerks are responding cautiously with warnings that the PM jumped the gun - the deal hasn't been finalised. But Horn usually gets his way. And with elections less than six months away, he'll be thinking about the long haul.

## Not so warm

When negotiators in Kyoto insisted that a deal would be struck by last night, no one really believed them. Travellers were overwhelmed with delegates trying to re-schedule flights to allow for the conference running over. But the deadline wasn't just self-imposed: the Kyoto international conference centre is booked from this morning by another convention. With cleaners waiting in the wings, the negotiators had to come to a conclusion - or continue haggling out in the icy chill of a Japanese winter.

## Financial Times

## 100 years ago

Serves Them Right  
We are glad to find that the Klondyke Gold Mining and Trading Company - which, as our readers will remember - is mixed up in some mysterious way with the London and South-Eastern Bank - is finding a good deal of difficulty in securing subscriptions of capital. Prospectuses have been going around for some weeks, and yet only something about £16,000 has been subscribed out of £100,000. The indifference of the public has necessitated the issue of an imitation type-written letter in which the secretary expresses the belief that a perusal of the prospectus "will convince you that we are offering a most excellent investment." We think we have heard this phrase before.

## 50 years ago

Canadian Gold Mining Ontario and Quebec gold mining operators have informed the Dominion Government that they consider the minimum assistance required to maintain the industry is approximately \$7 for all gold produced instead of that amount for new production only, as the Government has offered.

## GM returns to S Africa with investment in Delta

By Hagl Simonian in London and Mark Ashurst in Johannesburg

South Africa yesterday passed a milestone in its economic rehabilitation with the return of the world's biggest car company as a direct investor.

General Motors of the US is to buy 49 per cent of Delta Motor, the vehicle assembler formed from a management buy-out of its South African subsidiary in 1986.

The US group declined to reveal any financial details of the deal, beyond saying that it had an option to acquire "additional equity" in the future.

"GM has been impressed with the political and economic transformation in South Africa as well as the strong potential for growth in the automotive market," said Louis Hughes, head of GM's international operations.

The group said it would try to improve productivity at

Delta, which assembles Astra and Corsa cars, as well as Isuzu trucks and vans from Japan. Future projects could include exporting parts and vehicles as Delta becomes integrated into GM's sales and supply network.

The deal marks an unexpected leap in GM's international expansion to a new continent. The group is building factories in Argentina, Poland, Thailand and China to capture sales in developing markets.

In spite of relinquishing control in 1986, GM retained personal and business links with Delta, South Africa's third biggest vehicle maker by sales.

GM's move follows similar investments by other carmakers. Although South Africa has fewer than 100 vehicles per 1,000 inhabitants - compared with an average 400 per 1,000 in Europe - it has seven domestic carmakers.

Helped by high tariffs, they operated successfully as inde-

pendent licensees during the isolationist apartheid years. But as trade barriers fell, the local assemblers have sought ties with international parents.

Import duties fell from 125 per cent in 1994 to about 60 per cent by 2002. That has encouraged a number of importers, such as Volvo, Saab, Hyundai and Daewoo, to open dealerships. The rise in imports has prompted locally-based carmakers to restructure.

However, the established market and a high brand loyalty among buyers have convinced many carmakers that their historic investments in South Africa are worth protecting.

Toyota South Africa is investing R1.4bn (\$287m) over five years, while BMW will spend R1bn to modernise and expand. Meanwhile, Nissan Diesel and Isuzu are injecting R87.5m and R75m respectively into Nissan South Africa.

## Russian markets shaken by Yeltsin's ill-health

By Chrystie Freeland in Moscow

Russia's fragile markets were shaken yesterday when the Kremlin announced that President Boris Yeltsin had contracted an "acute respiratory viral infection" and would be confined to a sanatorium for nearly two weeks.

Kremlin officials sought to play down the Russian leader's illness, insisting that Mr Yeltsin was suffering from nothing more serious than a cold and would be able to continue working during his 10- to 12-day stay in the sanatorium outside Moscow.

But the 66-year-old leader's history of health problems, including a quintuple heart bypass operation just over a year ago, and his erratic behaviour on a visit last week to Sweden meant that his sniffs threatened to infect the Russian financial world.

Russian debt prices fell and the stock market dropped by nearly 5 per cent yesterday, partially wiping out this month's 18 per cent recovery in Russian shares.

Officials said Mr Yeltsin had caught a cold on his Swedish visit and was running a slight fever. "The doctors do not exclude influenza developing and have recommended a stay in a sanatorium," an official said.

Over the past 18 months, during which Mr Yeltsin suffered a heart attack in the middle of the 1996 presidential election campaign, the Kremlin has sometimes been economical with the truth about the president's health.

That ambivalent track record, together with the huge power vested in the presidency, means Mr Yeltsin's condition will be closely scrutinised. Key days will be Friday, when officials said he was expected to deliver his weekly radio address, and Sunday when he might vote in elections to the Moscow city council.

US president Bill Clinton said he saw no reason for concern and wished his Russian counterpart a swift return to health.

Despite the market jitters, two of the largest Russian companies also insisted that they were confident Mr Yeltsin would soon return to the Kremlin.

"On Friday [when Yeltsin persuaded parliament to pass the budget] the president did his duty," said Boris Brevnov, chairman of Unified Energy Systems, Russia's second largest company. "Now he deserves a rest."

Menapov, one of Russia's largest industrial groups, said: "The president's health problem will not end the improving trend in the Russian economy."

## THE LEX COLUMN

## Self-immolation

South Korea has only itself to blame for the renewed crisis that has hit its financial markets. While the government has taken the International Monetary Fund's cash and promised to swallow the IMF's medicine, its actions this week signal that nothing has really changed.

By nationalising two tottering banks instead of letting them go bust, and subsidising Daewoo's takeover of the ailing Saengyong Motors, the government has made clear that it still opposes the painful but essential restructuring of the private sector. On top of that, it seems to have been less than forthcoming about the level of Korea's short-term debt, now thought to be twice as high as original estimates at more than \$100bn. Investors have drawn their own conclusions, pushing the won to a new low against the dollar.

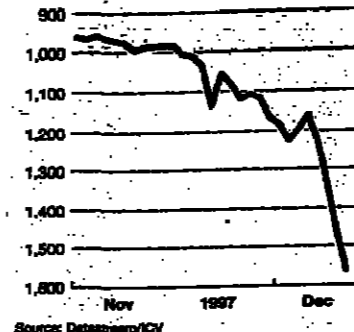
It is difficult to see an easy way out of this impasse. To repay its short-term borrowings, Korea urgently needs foreign capital, which will be much more expensive than its previous borrowings. Limited reforms, such as opening the stock and bond markets to foreigners, are just a small step towards restoring investor confidence.

As a last resort, the IMF could pump in more money, though it is staggering to think that last week's record \$57bn package may not be enough. But what is really needed is wholesale rationalisation of the financial and corporate sectors. Until the politicians overcome their fear of a popular backlash and accept this, Korea remains a market to be avoided.

FTSE Eurotop 300 index: 976.6 (-11.4)

South Korean won

Against the dollar (won per \$)



Source: Datastream/ICI

market is trading on nearly 22 times expected 1997 earnings. Assume it maintains that multiple and the market should rise over 30 per cent by the end of 1998 if the analysts are correct, but by less than 10 per cent if you believe the strategists.

Over the past six years the optimists have been closer to the mark, with US earnings growth averaging an impressive 16 per cent a year. But that is beginning to change. An expanding list of US companies, from Oracle to Tenneco and J.P. Morgan, has warned of problems in Asia and a slowing domestic economy. Since strategists are quicker to incorporate such macro events into their forecasts, the betting must now be that the bottom-up folk are out of line. That is hardly cheerful news for equities.

**Railtrack**

To judge from yesterday's 8 per cent fall in the share price, the rail regulator's announcement of a review of how Railtrack levies access charges to passenger train operators has hit a raw nerve with investors. But this looks like an overreaction to what is, after all, only the start of a two-year consultation process that will see much mud-slinging before the review is complete.

What most surprised Railtrack investors, and delighted those train-operating companies that stand to gain most from harsher regulation of the track owner, was the regulator's gusto in launching the review.

The review is clearly aiming for a more holistic treatment of Railtrack than was attempted in 1994. Whereas the overriding priority then was to ensure Railtrack had sufficient revenues from the operating companies, the focus now is on identifying an appropriate return for Railtrack shareholders. For that reason, the review will also examine the way Railtrack accounts for property profits and who benefits from any savings on track maintenance costs.

That this will entail using broadly the same methodologies as deployed by regulators in other industries should provide the market with a rare degree of certainty. It is now up to Railtrack to argue that its involvement in large construction projects, such as Thameslink 2000, justifies a superior rate of return than that allowed to other regulated utilities.

## US earnings

Four half a glass of wine. The analyst will say it is half-full; the strategist it is half-empty. Equity strategists, who compose earnings forecasts for the whole market, have always tended to be more pessimistic than the industry analysts who follow individual companies.

What is surprising is how wide this gap has become on Wall Street. According to the data collectors First Call and I/B/E/S, US equity strategists expect average earnings growth of 7 per cent in 1998 and 5-7 per cent a year thereafter. In contrast, aggregating the bottom-up forecasts of the industry specialists produces a merry 15 per cent growth for every year into the foreseeable future.

This difference has serious implications for investors. The US stock

## Christie's

A mysterious potential takeover bid has turned the tables on Christie's. Shares in the venerable auction house have leapt almost 20 per cent in the last week on hopes that the company will prove as adept in selling itself as in hawking the objects d'art of the rich and well-born. While the provenance of the bid is unclear, a central figure will be Joe Lewis, the wealthy businessman who owns a 30 per cent stake.

Recent changes to the way leading auction houses compete for the biggest sales, such as guaranteeing vendors a fixed sum even if the auction flops, have made large cash reserves essential for running the business. For this reason, a private individual with deep pockets, such as Alf Taubman, the American shopping mall tsar who owns Sothe-

## China and India may delay agreement on climate treaty

By Leyla Boulton and Bethan Hutton in Kyoto

Late resistance from China and India was last night threatening to hold up the agreement on a global treaty to combat climate change.

The compromise treaty, which is in the final hours of negotiations at the world conference on climate change in Kyoto, would impose a legally-binding target on industrialised countries for a 6 per cent reduction in greenhouse gas emissions by 2010. The most important greenhouse gas is carbon dioxide from fossil fuel consumption.

It would create an unprecedented regime for trading emissions targets between industrialised countries and developing nations that embraced curbs on the growth in their emissions. Technology would be transferred to developing nations to enable them to expand in a

more climate-friendly manner.

Companies in the industrialised world would be able to exceed domestic emission targets by buying permits from other companies or governments that have not used up their allowance - in effect investing in emission reductions abroad.

The 10-day negotiations entered their final phase after the European Union, the US, and Japan resolved differences over emission targets for developed nations. They compromised by agreeing to extend the scope of a treaty to six greenhouse gases from three initially proposed by the EU and Japan.

"We are at a historic juncture," Stuart Eizenstat, the chief US negotiator, told delegates as they sought to hammer out agreement on the document. "We have the opportunity to... demonstrate to the world, as we have been admonished to do, that once

and for all the developed world is ready to meet this historic challenge by agreeing legally-binding reductions."

But China and India last night threatened to torpedo the talks by opposing provisions for emissions trading. They argued trading might allow rich countries to continue growing at their expense without reducing overall emissions. Mr Eizenstat said the US needed emissions trading in order to carry out its obligations under the treaty.

The US has also angered developing nations at the conference by demanding they play a "meaningful" role in tackling climate change. The US Senate has gone further by threatening to veto any deal that does not include matching commitments for the country's fast-growing economic rivals.

The treaty must be approved by a consensus of nations.

Observer, Page 11

## Power sale

Continued from Page 1

and a raft of plants to reduce air pollution.

The company has expanded rapidly since its formation in 1984, with plants worth about \$5bn worldwide. In October, it signed deals to build generating plants in China, the Philippines and Tunisia.

The Massachusetts plants to be operated by Sittes will generate 2,800MW of electricity.

The sale is subject to state and federal regulatory approval and is set to close in the first quarter of next year.

## Commission seeks delay

Continued from Page 1

scientists also suggested that the SRM ban could be applied to animals of less than six months. Ian Gardner, policy director of the National Farmers' Union of England and Wales, said of the scientists' report: "It is impossible to assess what is the true risk. I wouldn't get out of bed if I listened to these people."

Meanwhile, William Hague, Tory leader, last night announced that his party would vote against the UK government's plan to ban beef

on the bone, claiming ministers had "over-reacted" to new scientific advice.

Final decisions on any additions to the SRM changes will be decided by member countries. The European Commission yesterday called for a further report by the scientists by the end of next month.

The committee also gave qualified backing for a scheme to allow the UK to resume exports of beef following the worldwide ban imposed in March last year, although an immediate lifting of the embargo is not in prospect.

**FT WEATHER GUIDE**

**Europe today**

Southern Scandinavia will have rain, heavy at times, while northern areas will have snow flurries. Eastern Europe will also have wintry showers but will be a lot colder. The Low Countries, Germany, Austria, Switzerland and France will be mostly cloudy with rain, heavy in many parts. Spain and Portugal will have rain in the north-west edging a little east but most southern and eastern parts will be dry with plenty of unimpeded sunshine. Central and western parts of the Mediterranean will have sunny spells and a few showers.

**Five-day forecast**

The Mediterranean will become unsettled with showers becoming heavy and prolonged, especially in central and eastern parts. Eastern Europe will remain cold with further snow in many parts. Western Europe will be mainly settled with some sunshine in many places but also an increasing risk of fog.

**TODAY'S TEMPERATURES**

Maximum/Minimum	Belling	Sun 3	Cardiff	Shower 12	Frankfurt	Rain 9	Madrid	Cloudy 11	Rangoon	Fair 34
Abu Dhabi	Cloudy 22	Belfast	Rain 8	Casablanca	Fair 20	Geneva	Rain 8	Majorca	Rain 19	Rain 3
Accra	Sun 30	Berlin	Cloudy 8	Chicago	Snow 1	Glasgow	Sun 20	Melbourne	Shower 11	Thunder 29
Algiers	Fair 19	Bombay	Shower 25	Colombo	Shower 11	Hamburg	Rain 8	Manchester	Rain 11	Rome
Amsterdam	Rain 12	Dakar	Fair 27	Dallas	Fair 27	Helsinki	Rain 10	Marina	Thunder 29	S. Francisco
Athens	Fair 14	Doha	Fair 20	Hong Kong	Fair 24	London	Rain 3	Medan City	Cloudy 25	Stockholm
Atlanta	Fair 9	Dubai	Shower 12	Kobe	Fair 24	Los Angeles	Rain 10	Miami	Thunder 29	Sydney
B. Aires	Thunder 27	Dublin	Shower 5	Manila	Fair 9	London	Rain 10	Montreal	Thunder 29	Taipei
Bham	Rain 12	Edinburgh	Rain 8	Osaka	Thunder 28	Moscow	Rain 10	Munich	Thunder 29	Tokyo
Bangkok	Fair 34	Faro	Fair 31	Paris	Shower 6	Nairobi	Fair 22	Naples	Thunder 29	Toronto
Barcelona	Fair 18	Seville	Shower 19	Perth	Shower 21	Qatar	Fair 22	New York	Fair 28	Vancouver
						Rio	Rain 8	Verona	Cloudy 9	Wellington
						Sao Paulo	Fair 15	Vienna	Rain 8	Whitap
						Shanghai	Shower 19	Warsaw	Cloudy 9	Zurich
						Seoul	Rain 4	Washington	Cloudy 9	
						Singapore	Rain 14	Wellington	Cloudy 18	
						Strasbourg	Fair 17	Whitap	Fair 17	
						Sydney	Fair 25			
						Taipei	Fair 19			
						Tokyo	Shower 20			
						Toronto	Fair 1			
						Vancouver	Cloudy 9			
						Verona	Cloudy 9			
						Vienna	Rain 8			
						Warsaw	Rain 6			
						Washington	Cloudy 9			
						Wellington	Cloudy 18			
						Whitap	Fair 17			
						Zurich	Rain 9			

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## COMPANIES AND FINANCE: INTERNATIONAL

## Land Rover to invest \$150m in Brazil

By Halg Simonian,  
Motor Industry Correspondent

Land Rover, the off-road vehicles subsidiary of the UK's Rover group, yesterday announced its biggest foreign investment since being taken over by BMW of Germany in 1994.

It will spend \$150m to assemble its workhorse Defender in São Paulo state in Brazil. Production should start late next year at the rate of 2,000 units a year, but could reach 5,000.

The decision is an important step in the growth of Rover's most successful operation. Land Rover output is expected to rise from 130,000

units this year to almost 200,000 in 1998 with the launch of the Freelander in January.

BMW, which was first attracted to Rover by its off-road subsidiary, believes there is considerable potential to expand Land Rover sales through new models and markets.

However, the timing of the Brazilian move - which had been aired but officially denied almost a year ago - and the size of the investment surprised analysts.

Vehicle sales in Brazil have fallen sharply in recent weeks after the government raised interest rates to protect the currency against speculators.

The interest rate rise resulted in a steep decline in demand for consumer credit, used to finance the lion's share of car sales.

In spite of the downturn, new car registrations this year should be well ahead of 1996.

Sales in the first 10 months were 22 per cent above the previous year. Sales of Land Rovers are expected to jump from 408 to 1,100 this year.

Observers were perplexed by the size of the investment, given that the Brazilian vehicles will be built from kits exported from the UK. The total workforce will be 800. Brazilian press reports suggested the factory would be built in an

existing plant in São Paulo's industrial belt, limiting the likely cost further.

Rover said the investment included spending to upgrade dealerships. It added that the announcement was timed to coincide with the government's decision to grant Land Rover official status as accredited automobile manufacturer - essential for import quotas.

Rover said the Brazilian vehicles would achieve 60 per cent local content in four years. Engines would probably come from Mexico, a local manufacturer which already builds Land Rover diesels under licence.

Land Rover returned to Brazil in 1995 after a tortuous legal battle over ownership of its local trademark. Rover said it had no immediate plans to re-enter the car market, although that could happen later.

BMW has been looking at Brazil more closely since the economy recovered in the 1990s. Last year, it announced a joint venture with Chrysler to build 400,000 petrol engines a year at a new plant near Curitiba.

BMW's Brazilian subsidiary, set up in 1995, now has 26 outlets selling BMW and Land Rover vehicles. Sales surged 25 per cent to 4,653 in the first 10 months of this year.

## AIG raises \$1.53bn for Asia

By John Authers  
in New York

American International Group, the largest US insurer, yesterday said it had raised \$1.53bn for an infrastructure fund to invest in Asia.

The announcement follows increased efforts by AIG, which has extensive international operations, to sustain its activities in Malaysia, where Dr Mahathir Mohamad, prime minister, is resisting demands by trade negotiators that foreign insurers should be allowed to keep all their investments in the country.

It appeared to signal that the company, based in New York but with its roots in China, wanted to emphasise its support for Asian economies.

AIG is sponsoring the fund, while GIC Infrastructure, an investment affiliate of the government of Singapore, will be the principal investor. It will be managed by a Bermuda partnership owned by subsidiaries of AIG and GIC.

AIG said a total of 17 institutional investors had made commitments to the fund. "There is continuing appreciation that the future growth of the Asian economies will depend to a significant degree on infrastructure development," Hank Greenberg, chairman, said.

He added that the "substantial" commitment reaffirmed the confidence of AIG and other institutional investors in the long-term growth prospects for Asia.

The fund will invest in equity and convertible debt infrastructure investments, with more than half of the fund invested in China and India. The balance will go to some of the countries which have been worst hit by the recent currency turmoil, including Indonesia, Malaysia and Pakistan.

AIG launched a similar Asian infrastructure fund three years ago which raised \$1.1bn and is now nearly fully invested. Many of the investors in the first fund are repeating their commitment in the new venture.

The Emerging Markets Partnership, an asset manager based in Washington, will be the main investment adviser. It is chaired by Moeen Qureshi, a former prime minister of Pakistan, while the managing partner is Donald Roth, a former treasurer of the World Bank and chairman of Merrill Lynch Europe.



Tom Scott (left) and Tom First: founded Nantucket Nectars

## Ocean Spray takes 50% of juice group

By Victoria Griffith in Boston

The world's largest producer of cranberry products, Ocean Spray, has taken a 50 per cent stake in Nantucket Nectars, the juice concern that has achieved near-cult status in the US because of its phenomenal growth and alternative approach to marketing.

The deal preserves Nantucket's independence and allows the company's two co-presidents, Tom Scott and Tom First, to remain in charge.

They became an inspiration to aspiring entrepreneurs when they turned their home-blended operation into a company with \$50m in sales within a few years. Last year, Inc magazine named the group one of the

fastest-growing businesses in the country. However, the company has not revealed its profits and no details on the price paid by Ocean Spray were disclosed.

Nantucket Nectars has used the story of First and Scott's rise as a key marketing tool.

The two launched the juice business during a quiet winter on the resort island of Nantucket, off the coast of Massachusetts, where they lived as self-described "beach bums" after graduating from university. Because big chains would not take their bottled juices, they began selling to small, corner stores, and from trucks during university events. Radio commercials played

up the company's folksy image, and Nantucket Nectars adopted the slogan: "We're juice guys. We don't wear ties to work."

Mr Scott says the company rejected numerous offers that would have forced Nantucket Nectars to relinquish its independence.

The company plans to join forces with Ocean Spray on purchasing to obtain better deals from suppliers, and may collaborate in other areas. "The main thing is that we will continue with the same team under the same management at the same headquarters," says Mr Scott. "There will be absolutely no lay-offs."

Earlier this year, Nantucket Nectars signed a deal to provide juice to the coffee chain Starbucks.

## Russia's UES to sell 101 subsidiaries

By Chrystia Freeland  
in Moscow

Unified Energy Systems, Russia's national electricity monopoly, plans to begin next week to sell 101 subsidiaries unrelated to its core business.

The sell-off will cover a range of activities, including poultry farms and commercial banks, in the north Caucasus.

"We hope to get rid of this ballast as soon as possible," said Boris Brevnov, UES chairman, in an interview with the Financial Times yesterday. "For specialists they could be good businesses, but they distract from our main line of work."

The sales are part of a broader restructuring being engineered by Mr Brevnov, a 29-year-old former commercial banker.

Mr Brevnov was brought into UES earlier this year as part of the Kremlin's campaign to reshape the behemoths of the Soviet economy. He has already cut 10 per cent of UES's regional managers and more than half the staff in the company's Moscow headquarters.

Mr Brevnov estimates the company can save about \$50n-\$60n a year simply by reforming management practices.

Mr Brevnov said UES would later sell a second package of subsidiaries - the construction and repair companies owned by the electricity giant.

"It will take us a little bit more time to prepare them for sale," Mr Brevnov said.

He said UES was also seeking direct foreign investment in its core business of electricity generation.

One of three projects on offer will be a hydro-electric power station in Sakov, north-western Russia.

Analysts say UES is seeking a broader strategic link with a western company - a view backed by recent meeting between UES leaders and groups such as Enron, of the US, and Electricité de France.

UES would be following in the footsteps of Russian giants such as Gazprom, the world's largest natural gas producer, which last month clinched an alliance with Royal Dutch/Shell.

## Sidek asset sale plan gains support

By Henry Tricks in Mexico City

Two years after defaulting on \$2.2bn of debt, Sidek, the troubled Mexican tourism and real estate conglomerate, has won the backing of most of its main creditors for a restructuring plan to liquidate \$1.3bn of assets.

Luis Rebollar, chief executive, said the sale of assets would take place over five years, and he dismissed fears that opponents of the deal, including international bondholders, could block it.

"There's an orderly sale of assets or there's bankruptcy. There's no other way out," Mr Rebollar said. Bankruptcy proceedings could tie up the 250 subsidiaries for years.

Sidek, based in Guadalajara, was the first big company to default after Mexico's 1995 financial crisis. It had built up investments in hotels, marinas, golf courses and time-share developments that became unprofitable when the peso collapsed in 1994.

Mr Rebollar said a formal restructuring offer would be sent to creditors this month. It would ask them to surrender \$1.95bn of debt securi-

ties in exchange for participation certificates in a trust made up from proceeds of the liquidation sales. The offer would end on January 30, he said.

For it to work, at least 95 per cent of creditors must agree to the plan. Some, especially international bondholders, are said to be reluctant to take part. "There are simply not enough assets to pay creditors," said an analyst close to them.

One stumbling block is that unsecured creditors, including foreigners, are last in line for payment. According to a Sidek document issued to shareholders, secured creditors will have first rights to 78 per cent of the proceeds of each asset as it is sold.

The secured creditors include 17 Mexican banks that hold \$1.5bn of Sidek debt. "The Mexican creditors are in agreement. That's 75 per cent right there," Mr Rebollar said.

Owners have tried to insulate Simec, the group's profitable steel-maker, from the creditors. Mr Rebollar was due to present results of a \$324m debt-restructuring plan at Simec yesterday.

## Tenneco warns on fourth-quarter profits

By Nikk Tait  
in Chicago

Shares in Tenneco, the US packaging and automotive products group, slumped almost 10 per cent yesterday after the company warned of a "weaker-than-normal" aftermarket for parts and delayed pricing benefits in its containerboard operations would result in fourth-quarter profits well below analysts' estimates.

Dana Mead, chairman, said the company expected earnings per share from its continuing operations of 40-45 cents - almost 30 per cent below analysts' forecasts of about 60 cents.

The shortfall was blamed on the "simultaneous occurrence of several unrelated events", which Mr Mead said were partly non-operational. The US aftermarket for automotive products is traditionally weak in the fourth quarter, but the Tenneco chairman said the company had found sales softer than usual.

He also suggested some customers might be delaying purchases ahead of the launch of two products - a muffler and a shock absorber - in January.

In addition, the strong dollar is expected to hit non-US business, which accounts for about half Tenneco's sales. On the containerboard

side, Mr Mead said that the company had phased in box price increases in November, but would not see the full benefit until the first quarter of 1998 - slightly later than most analysts were anticipating.

The company would also face "small non-recurring costs" related to a restructuring and an asset sale.

Mr Mead stressed that the outlook for 1998 had not changed and that the group

still expected to meet Wall Street forecasts of \$3-\$3.35 a share for full-year earnings next year.

He suggested results would be bolstered by the strengthening paperboard market and a range of product launches on the automotive side.

By late morning, Tenneco's shares were trading at \$40.75, down \$3.75.

Lex, Page 12

## Business television in Asia receiving mixed signals

ABN and CNBC Asia are joining forces, but it remains unclear whether there is a market for English-language programming

The battle for Asia's business television viewers, which prompted this week's ABN-CNBC Asia merger, leaves one big question: is it a battle worth winning?

"Everyone realised you are not going to get rich doing English-language business programmes, even before the financial turmoil that the region in general has seen recently," says Susan Schoenfeld, president at AIM Asia, a media consultancy.

Consolidation in other parts of the industry, with the merger of sports channels Star Sports and ESPN, had already signalled that only slim pickings were on offer. Consultants say more consolidation might yet follow.

For ABN and CNBC, the merger is aimed at strengthening their position and building on the combined market share. The deal was part of a bigger merger of the European and Asian business news channels of

the two US groups, Dow Jones and NBC, the latter owned by General Electric. "It will accelerate our move into the black," says one executive of the merged ABN-CNBC company, although he dismisses the idea that profits could be achieved before 1998.

In theory, the target market is lucrative: Asian business executives who would switch on for their daily dose of market and business information in English.

In practice, this has proved a hard target to hit. "They were looking at the same top 5 per cent Richard Li looked at in 1991 when he launched Star TV. He figured it was not there, and he had five channels plus partnerships and was more audience-focused. CNBC had two channels that did not have a clear objective," says one consultant.

Arguably, it was the experience of Richard Li, the younger son of Hong Kong tycoon Li Ka-shing and who



Pan-Asian business television channels have failed to attract large numbers of viewers and advertisers

masterminded the sale of Star TV to Rupert Murdoch's News Corp in July 1993, that exploded the myth of pan-Asian TV. Shortly after the sale, the strategy of targeting Asia's top 5 per cent viewers with English-language programmes was jettisoned in favour of regional languages, such as Mandarin and Hindi.

Star TV also pre-dated ABN in its endeavours to boost non-advertising revenues. Success has been patchy. ABN failed to achieve its aim of a 50-50 split between subscriber revenues and advertisers - but as Ms Schoenfeld points out, even operators in developed

markets such as the US have not managed this. Heavy reliance on advertising brought its own problems. Advertisers have tended to shun the medium because of its lack of focus and unsuitability for local products. Those who do sign up are largely from the few truly pan-Asian fields such

as airlines, telecoms and luxury brands. Even then, buyers have been uncomfortable booking spots on CNBC, which was felt to fall between two stools - lacking a substantial Asian franchise, but not sufficiently international in the way that CNN is.

Rita Lam, media manager

at J. Walter Thompson Hong Kong, says: "ABN is more focused and Asian-oriented - more appropriate for companies such as Singapore Airlines which are seeking to convey an Asian image."

"CNBC is very new. It claims the highest distribution numbers, but it is questionable to me. By contrast, a reason to support ABN is its Dow Jones background, which makes it more credible."

The fight for advertising is set to become even more fierce in the wake of the financial turmoil sweeping Asia. "Undoubtedly, it will be tougher," says Karen Elliott House, president of Dow Jones & Co International. But she adds the crisis has increased the need for business news, while the merged group should be in a stronger position to win market share.

Paul France, ABN chief executive, says the majority of advertising clients are

multinationals, which have been less affected by the turmoil as the bulk of their revenues are outside the region. "We are reasonably confident that we won't be affected by the meltdown in some markets as much as other regional companies."

Given the uncertain market prospects, however, the cost side of the equation is arguably more compelling. By decamping to ABN's base in Singapore, the group will cut out Hong Kong's high rents and salaries. Add the reduction in staff of more than 200, and the bottom line should see a substantial benefit once restructuring charges are booked.

Yet even Singapore could prove to be an elusive Shangri-La. The ABN-CNBC merger underlines that Asia is not big enough for two English-language business broadcasters. They have yet to prove it is big enough for one.

Louise Lucas

## INTERNATIONAL NEWS DIGEST

## TCI signs three cable alliances

Consolidation of US cable television continued yesterday with the announcement of three new partnerships, all including Tele-Communications Inc, the industry leader. TCI is to swap subscribers with Century Communications, a leading provider in California, Denver-based US West Media, and Multimedia Cablevision. The deals, part of a TCI-inspired drive to reduce debt and create large clusters of customers from scattered holdings, will affect almost 2.5m households in California, Florida, Illinois, Indiana and Kansas. Financial details were not disclosed.

TCI also unveiled plans yesterday to launch 12 Spanish-language cable networks next spring to serve the nation's largest linguistic minority. It said it was preparing six further offerings for this group.

Christopher Parkes, Los Angeles

## PHARMACEUTICALS

## Eli Lilly wins Evista approval

The US Food and Drug Administration has approved Eli Lilly's osteoporosis treatment, Evista, for marketing.

Osteoporosis affects more than 28m Americans, mainly women, the company said. Evista is the first in a class of new drugs called selective oestrogen receptor modulators to be approved by the FDA. It is expected to be available in early January. Eli Lilly has applied to market Evista in more than 30 countries.

Tracy Corrigan, New York

## UNIT TRUSTS

## State Street buys BoS business

State Street, the investment management and custody group, is to buy the unit trust trustee business of Bank of Scotland in a move to increase its assets outside the US. At the same time, State Street Global Advisers, announced a joint venture with Mediobanca group, the fourth largest life insurance company in Italy, where the venture will target the pensions market in Italy, where the government is trying to move away from state provision.

The Bank of Scotland deal, which adds about \$130n (\$21.4bn) to State Street's \$3,900m assets under custody, is the group's first foray into the UK's trust business market. Under the terms of the deal, State Street will take fiduciary responsibility for the bank's assets. Boston-based State Street is keen to expand into Europe.

The sale signalled Bank of Scotland's intention to withdraw from the global custody business, which is increasingly dominated by a handful of huge firms. It said yesterday that there would be "no material financial effect" on the bank's consolidated accounts from the sale.

Jane Martinson, London

## INDUSTRY

## Venezuelan plant for BHP

Broken-Hill Proprietary (BHP), the Australian resources group, has begun construction of a \$780m hot briquetted iron plant in south-east Venezuela, marking a wave of international investment in the country's opening metal industry. The Orinoco Iron plant, a joint-venture between BHP and Venezuela's International Briquette Holding, an affiliate of steel producer Sisenca, is to produce 2.2m tonnes of HBI by 2001, most of it for export.

World demand for HBI, which is used in steel production, is increasing as the supply of high quality scrap metal is insufficient to meet growing demand of electric steel-making and new mini-mills coming on line.

Venezuela is using foreign investment to become the world's leading exporter of HBI by boosting production from an estimated 4.7m tonnes in 1997 to about 9.5m tonnes by 2002.

Raymond Collett, Caracas

## FRANCE

## Watchdog opens casino inquiry

SFCMC, the Cannes casino operator, yesterday launched a FF260m (\$44.3m) rights issue on the day the French stock market watchdog said it had opened an inquiry into the company and drew investors' attention to a warning by its auditors about its accounts. The Commission des Opérations de Bourse said it launched an investigation into the financial information produced by SFCMC and its directors, as well as into movements in the company's shares from the start of this year.

The auditors stated their reserves over the valuation placed by SFCMC on the shares in the Hotel Gray d'Albion in its accounts. Furthermore, the casino operator which holds 30 per cent of SFCMC, said it would not subscribe to the rights issue. The Barriere-Dessaigne family, which controls 55 per cent of the shares, said it would underwrite up to FF200m of the issue.

Andrew Jack, Paris

## INDIA

## CMS buys 49% of power station

CMS Energy, the fourth largest gas/electricity utility in the US, announced yesterday it was acquiring a 49 per cent interest in a new independent power plant being built in Chennai, in southern India. The stake is being purchased from the GMR Vasavi group, an Indian conglomerate, which began construction on the plant this year and remains the project developer.

The plant is scheduled for completion in early 1999.

Nikk Tait, Chicago

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NATIONAL NEWS DIGEST

# I signs three alliances

The 1997-1998 television season is under way, and the networks are all looking for ways to attract viewers. The networks have formed three new alliances: the Fox network with Century Communications, the NBC network with Cablevision, and the ABC network with Time Warner. The alliances are designed to help the networks compete for viewers in a crowded market.

## Evista approval

The Food and Drug Administration has approved Evista, a new drug for the treatment of osteoporosis. Evista is the first drug of its kind to be approved for the treatment of osteoporosis in postmenopausal women.

## BoS business

Barclays Bank has announced that it will be focusing on its core business of banking and financial services. The bank has decided to divest itself of its non-core businesses, including its insurance and real estate divisions. This move is part of a broader strategy to streamline the bank's operations and improve its financial performance.

## for BHP

The British Highways Programme (BHP) has been approved by the government. The programme is designed to improve the quality of the UK's road network and to reduce the number of accidents on the roads. It will involve a series of investments in road infrastructure, including the construction of new roads and the improvement of existing roads.

## casino inquiry

The government has launched an inquiry into the operation of casinos in the UK. The inquiry is designed to investigate the impact of casinos on the economy and on society, and to identify any areas where the government's policy on casinos needs to be revised. The inquiry will involve a series of consultations with stakeholders, including the casino industry, the public, and government officials.

## % of power station

The government has announced that it will be investing in a new power station. The new power station is designed to generate electricity from renewable sources, and it is expected to be operational by 2005. The investment is part of a broader strategy to promote the use of renewable energy and to reduce the UK's dependence on fossil fuels.

## signals

The government has announced that it will be launching a new signal. The new signal is designed to provide information about the government's policies and activities, and it is expected to be a valuable tool for the public.

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## COMPANIES AND FINANCE: INTERNATIONAL

## Burger King cooks up fries offensive

By Richard Tomkins  
in New York

Burger King, the Miami-based fast-food company, yesterday opened another front in the burger wars by launching an improved version of its french fries under the slogan: "The taste that beat McDonald's fries."

The launch appears calculated to ram home Burger King's attack on its bigger rival at a time when McDonald's is already reeling from a string of disappointments in the US market.

Burger King's new fries are made with a coating the company claims makes them crispier and tastier and keeps them hotter, longer - an important factor because 75 per cent of Burger King's customers take food away.

Until now, the widely-accepted view in the US burger industry has been that Burger King's "flame-broiled" Whopper is the better-tasting burger, but that McDonald's

makes the better-tasting fries.

However, Burger King - a unit of Britain's Grand Metropolitan - claims that in independent taste tests conducted in 18 cities across the US, 57 per cent of consumers said they preferred the taste of its new fries, compared with 37 per cent preferring McDonald's.

The company said the remaining 8 per cent of consumers expressed no preference.

Yesterday, Jim Watkins, senior vice-president of marketing for Burger King North America, said: "Until now, our fries were not up to our standards of superior, better-tasting food. Now, we can honestly say that Burger King is the best place for burgers and fries."

Burger King said it had spent two years developing the coated fries. The company said the details of the technology were secret, but the fries were all-potato and contained no common allergens, such as wheat or gluten.

The fries are already being sold

in Burger King's 7,414 US restaurants and will be introduced to its 1,986 overseas outlets shortly.

Burger King is spending \$70m to advertise and promote the fries - the biggest product launch in its history.

McDonald's shrugged off Burger King's announcement, saying there was nothing new about coated fries. "We are used to people playing catch-up. We don't think it's going to happen," it said.

"Our research shows us that people overwhelmingly prefer McDonald's fries by a three-to-one margin, and these studies also show that people are sceptical of anyone who claims they have a better fry than we do because they regard McDonald's fries as the gold standard of the industry."

Nevertheless, Burger King's move is likely to increase the competitive pressures in the US fast-food industry at a time when McDonald's has been losing market share.



Taste test: Burger King claims 57% of consumers prefer its 'coated' fries

## Merged Swiss banks eye the American pie

The merger of Swiss Bank Corporation and Union Bank of Switzerland will create, according to management, a "strong and profitable platform in the US". The claim is modest but accurate, according to analysts.

Warburg Dillon Read, as the merged investment banking business will be known, still faces the critical challenge of establishing itself on an equal footing with the top domestic investment banks in the world's largest capital market.

Swiss Bank Corporation has achieved a strong position in some areas through acquisition - O'Connor in the derivatives market and Dillon Read in mergers and acquisitions, for example - but makes little showing in

the US underwriting league tables.

Nonetheless, analysts say they are encouraged by its successful record in integrating acquisitions and its relatively strong brand names. "They've assembled, at least on paper, some good assets," says Michael Lipper, of Lipper Analytical Services.

Analysts are more dubious about UBS's record. While it has made inroads in bond underwriting, analysts point out that this is an area where market share can be bought. Despite heavy investment in building the business organically, UBS still lags behind strong US institutions. "I don't think anybody thinks of UBS as a leader [in the US market]," says Mr Lipper, though he adds that it is viewed as

"having good credit and lots of capital".

Like Deutsche Morgan Grenfell, part of Deutsche Bank, UBS has been criticised by others in the industry for hiring staff on guaranteed bonuses, racking up overheads and inflating employment costs for the industry.

UBS has been "one of the more controversial bidders" in the jobs market, says one investment banker. He adds that UBS's record is an example of "how not to build in the US", citing the lack of a common culture to build on and frequent management changes.

Even with extra firepower as a result of the merger, real penetration of the US market is far from assured. The only European bank to

date to have gained a position in the US "bulge bracket" - the investment banking elite - is Credit Suisse, but that was through one large acquisition, First Boston.

Deutsche Morgan Grenfell, probably the furthest advanced among the latest influx of European commercial banks, is still investing in building its business, and others, such as Barclays de Zoete Wedd and NatWest Markets, have pulled back. It is a pattern seen before - Warburg, for example, tried and failed to build a credible US business prior to its acquisition by SBC.

The strategy of the merged business is to expand in equities and high-yield bonds. The firm has not ruled out an acquisition, but

a deal is not expected for some time, given the task of integrating the businesses.

One important issue, according to analysts, is what kind of leadership the US business will have. That decision has not yet been made, and officials say no announcement is expected until after the shareholder meeting early next year.

But analysts say they are encouraged by SBC's record of promoting strong managers from acquired businesses: Gary Brinson, for example, who joined the firm following the acquisition of Brinson Asset Management, the US fund management company, will run the merged firm's global asset management business.

If the firm's management does decide it needs to

acquire a US business - as may be necessary to advance its position in the US rapidly - its options are shrinking as consolidation continues.

Donaldson Lufkin & Jenrette, with its strong domestic position, would fit well, but may not be for sale. Lehman Brothers and PaineWebber would meet some of its needs, though the overlap with Lehman Brothers outside the US would require further painful retrenchment.

Meanwhile, say analysts, the merger of the two Swiss banks may goad US commercial banks such as Chase into stepping up their attack on the US investment banking industry with some acquisitions of their own.

Tracy Corrigan

## INTERNATIONAL NEWS DIGEST

## Frontline stalls Astro-ICB deal

The \$309m merger between ICB Shipping of Sweden and Astro Tankers, the privately owned Greek shipping company, has been stalled by a legal challenge from Frontline, the Bermuda-based group behind a SK\$3.23bn (\$410m) hostile bid for ICB. Frontline, which has argued that the Astro deal flouts Swedish company law, has filed a lawsuit with the Stockholm district court to prevent the merger taking place.

The action has forced the PRV, Sweden's patent and register authority, to halt the issue of new shares by ICB as part of the Astro deal. ICB, in a bid to frustrate Frontline, had planned to issue 11.85m new shares to Astro's owners, the Angeloscoussis shipping family.

Lawyers acting for Frontline yesterday said the PRV would not approve the share issue until the legal action had been resolved, and predicted the case might not come to court before next autumn. "Until the case is completed the [Astro] deal cannot go through," said one Frontline lawyer.

Frontline has offered SK\$115 a share in cash for ICB's most commonly traded B shares, and SK\$130 a share for its voting A shares. It has already acquired 51.7 per cent of ICB share capital and 31.4 per cent of the voting rights. Investors owning a majority of the voting rights, however, have already approved the Astro merger. ICB's B shares yesterday closed down SK\$12 at SK\$108, while the A shares were unchanged at SK\$140. *Tim Burt, Stockholm*

## FRANCE

## Saint-Gobain sells stakes

Saint-Gobain, the French glass, ceramics and abrasives manufacturer, yesterday took the first significant step towards fulfilling its pledge to unwind its cross-shareholdings with other French companies. It sold 600,000 shares in the utilities group Générale des Eaux, cutting its stake from 9.6 per cent to 9 per cent, and 750,000 shares in the insurance group AXA-UIP, reducing its holding from 0.45 per cent to 0.22 per cent.

The disposals, which Saint-Gobain said would generate FF200m-FF300m (\$33.2m-\$49.8m) in capital gains, were not in the groups that many had expected. Jean-Louis Boffa, chairman, said in April he would reduce cross-shareholdings, but placed particular emphasis on the holding company Suez. His decision indicated a preference for Générale des Eaux over Suez following its merger with the rival utilities group Lyonnaise des Eaux, which had the effect of diluting Saint-Gobain's stake. Mr Boffa said at the time he would "significantly" cut his Suez participation. The company said yesterday that it had not sold shares in either Suez or another cross-investor, BNP. Générale des Eaux said it had reduced its reciprocal stake in Saint-Gobain by a similar amount over the past few months, and did not expect any further changes in the cross-shareholdings. *Andrew Jack, Paris*

## NEW ZEALAND

## DB Group advances 15%

DB Group, the New Zealand brewery and liquor group, lifted annual earnings before interest and tax by 15.4 per cent to NZ\$36.6m (\$523.18m) due to a policy to meet market demand with premium beers and better quality wines and spirits. DB Group, which is controlled by Heineken and Singapore interests, also announced that its after-tax profit fell 5.8 per cent to NZ\$28.6m because of the company's decision to change its capital structure.

Eric Korthals Altes, managing director, said the result was excellent given the decline in volume sales of beer and spirits and extremely competitive markets. Group sales for the year were NZ\$647.6m, compared with NZ\$650.6m. *Terry Hall, Wellington*

## PAKISTAN

## PIA looks for savings

Pakistan International Airlines, the state-run carrier, said it had incurred a loss of 4.79bn rupees (\$108m) in 1996-97. Shahid Khaqan Abbasi, chairman, said: "The crisis situation has been reached as a result of years of complacency, loss of direction, neglect of consumers, inadequate investments in core activities and heavy investment in non-core business."

He said that with rising operational costs because of an ageing fleet, PIA had to cut costs, reduce employees and pursue new revenue enhancement activities. He said an estimated 3bn rupees would be saved in 1997/98 through cost cuts while a further 2bn rupees would be raised by revenue-enhancement measures. He added that a fleet replacement programme had been launched due for completion by March 1999. *Reuters, Karachi*

## ACCOUNTANCY

## Coopers &amp; Lybrand ahead

Coopers & Lybrand, the Big Six accountancy firm seeking a merger with Price Waterhouse, yesterday announced an increase in worldwide revenues to \$7.5bn for the year to September - up 10.7 per cent from the \$6.8bn of the previous year. The growth rate is towards the lower end of that enjoyed by the sector but Coopers said this was caused by currency exchange rates.

At constant rates, fees would have been \$7.8bn - up 14.7 per cent. Growth rates varied geographically with the UK recording 22 per cent, the US 18.4 per cent and Europe overall 6.1 per cent. The firm said the European results were affected by the strong dollar.

The firm's merger submission is with competition authorities at the European Commission and is likely to be scrutinised by US regulators. *Jim Kelly*

## JAPAN

## Toyota delays hybrid car launch

Toyota, the Japanese carmaker, has had to delay the national launch of its hybrid car, the Prius, by about 10 days to ensure that the car is up to quality standards.

Toyota played down the delay of the Prius, which was scheduled to be in Toyota showrooms around Japan yesterday, and said it wanted to make sure that everything was up to standard when the world's first mass-produced hybrid car goes on sale. "It is not unusual for a new vehicle not to be available at all showrooms initially," it said.

The hybrid car, which reduces emissions by using a combination of petrol and batteries, has attracted more interest than Toyota had expected. According to industry estimates Toyota has received advance orders for three times the monthly sales target of 1,000 units.

Toyota has set a price of ¥21.1m (\$16,000) on the Prius, which compares with ¥1.65m for a comparable, conventional, model. *Michiko Nakamoto, Tokyo*

## GERMANY

## Short-list for Berlin airport

German authorities yesterday announced they would select a new owner for the Berlin airport system from a short-list of four consortia. BAA, the UK airports operator, has not been short-listed. Airports Group International of the US heads one of the groups; Copenhagen airport and Bechtel International lead the second; ABB, Siemens and Frankfurt airport are involved in the third; and Vienna airport and Dresdner Bank head the fourth. *Michael Shapiro, Aerospace Correspondent*

A Consortium formed by Máxima, SBC Warburg Dillon Read Inc., Morgan Stanley & Co. Incorporated and Banco Omega advised the Government of the State of São Paulo in the valuation, modeling and execution of the sale of 67.60% of the voting shares of the Companhia Paulista de Força e Luz - CPFL.

**CPFL** Companhia Paulista de Força e Luz

The sale of this stake represents the largest privatization of an electric utility company in Latin America to date.

This stake was sold for

**US \$3,197,502,193**

**\*SBC Warburg Dillon Read Inc. MORGAN STANLEY & CO.**  
Incorporated

**máxima**

**OMEGA**  
Banco Omega S.A.

4021100135A

## COMPANIES AND FINANCE: INTERNATIONAL

## Rescue deal for PLDT's cellular unit

By Justin Marozzi in Manila

PLDT, the largest telecommunications group in the Philippines, yesterday announced a 40n pesos (US\$14m) rescue deal for Piltel, its cellular phone subsidiary, following the collapse of an alternative buy-in.

However, analysts warned the parent company was stretching its balance sheet to fund the purchase. Shares in PLDT fell 6 per cent to close at 870 pesos, while shares in Piltel, which were trading last week at 3.85 pesos, rebounded 6 per cent to 6.6 pesos.

Under the agreement, PLDT will purchase about 650n shares in Piltel in two tranches at 8.1 pesos a share.

It said its "equity infusion into Piltel is intended to assist Piltel in meeting its obligations". Piltel needs funds to pay off short-term debts.

The rescue deal will increase PLDT's stake in the cellular phone group from 31 per cent to 68 per cent. It follows the announcement last week by Philcom, a local telephone company, that it would not go ahead with the 5.17m pesos acquisition of a 20 per cent stake in Piltel because of "turbulent" market conditions.

When Philcom agreed to buy into the company in April at 20 pesos a share, Piltel shares were trading at 14.25 pesos.

Alex Connor, head of research at brokers Indosuez

WI Carr, expressed disappointment at PLDT's move. "The reality is that Piltel has had a lot of problems and most have stemmed from management," she said. "We really need a management in there with experience of successfully managing a cellular phone operation, either internationally or in the Philippines. With PLDT stepping in, there won't be much of a change."

Piltel, which until this year was the leading cellular phone operator in the Philippines, has been hit hard by delinquent subscribers.

Last year, it wrote off 85,000 subscribers, or 20 per cent of its customer base.

ING Barings, the broker, said Piltel's gearing would fall from 183 per cent to 138 per cent following PLDT's purchase of shares.

But it said the group would be reporting losses of about 500m pesos this year, after foreign exchange losses and write-offs of delinquent subscribers.

Analysts warned PLDT might need to launch a rights issue to finance the purchase of shares. Its gearing would shoot up from 145 per cent to 182 per cent after the purchase, said one.

"PLDT will need to borrow and it already has quite a stretched balance sheet. It may be forced to cut down on its capital expenditure rather than paying off debt and improving its financial position."

## BellSouth discusses stake in Veba telecoms

By Ralph Atkins in Bonn

BellSouth, the US regional telecoms operator, is in talks with Düsseldorf-based Veba about taking a stake in the German industrial conglomerate's fledgling telecoms operation.

Ulrich Hartmann, Veba chairman, confirmed negotiations were under way as o.tel.o, its telecoms subsidiary, begins gearing up for the liberalisation of the German telecoms market from January 1.

O.tel.o is owned jointly by Veba and RWE, the Essen-based industrial conglomerate. But a 22.5 per cent stake was reserved for a future international partner after Cable & Wireless, the UK-based telecoms company, withdrew from the Veba-RWE alliance earlier this year.

Other possible US partners have included SBC Communications, another regional telecoms operator, and GTE, the local operator. Yesterday Veba confirmed it had narrowed the field to BellSouth. A deal is expected within the next few months.

Competition for private customers has already intensified, with Mannesmann Arco, another of Germany's new telecoms companies, announcing this week it would undercut significantly prices charged by Deutsche Telekom, the telecoms giant which is still majority-owned by the state.

In response, Ron Sommer, Deutsche Telekom chairman, yesterday promised customers "a surprise every month" in 1998.

Speaking at a ceremony to mark the modernisation of telecoms networks in eastern Germany, Mr Sommer also said Deutsche Telekom would halve the cost of long-distance calls to the US and France between Christmas and the New Year.

An attraction of BellSouth to o.tel.o would be its 22.5 per cent stake in E-Plus, Germany's third-largest mobile telephone company. O.tel.o already has a 60.3 per cent stake in E-Plus but has said it would like to increase its stake and is looking to develop integrated fixed and mobile telephone services.

O.tel.o is focused on the German market, but Veba has also underlined its international telecoms ambitions, announcing this week that it was joining forces with Telecom Italia and Bouygues of France to offer fixed net telephone services in France from next year.

Ericsson, the Swedish telecommunications group, said yesterday that its Italian unit Ericsson SPA had concluded an agreement to sell 80 per cent of its network construction company, Cosir, to Italy's Intek, AFX reports from London.

It said that the sale to Intek was in line with its strategy of concentrating on core business, but added that it would continue to co-operate extensively with Cosir.

Ericsson did not reveal financial details of the deal.

## Teva takes transatlantic route

The US market now accounts for 50% of the Israeli pharmaceuticals group's annual turnover

Over the past seven years, Teva, Israel's largest pharmaceuticals group, has captured 8 per cent of the US market for generic drugs - prompting US drug companies to lobby the US embassy in Tel Aviv over a proposed amendment to Israeli patent law.

Paradoxically, it was restrictive legislation in Israel that forced Teva to move a large part of its production to the US. The law banned Israeli companies from carrying out any research and development of generic drugs before a patent had expired.

In the US, companies can develop generics and prepare the necessary registration procedures before the expiry of the Israeli patent. If the Israeli parliament passes new legislation, it will allow local pharmaceutical and agrochemical companies to do the same at home - obviating the need to shift R&D abroad.

But US officials say Israel's planned reform is too liberal, as it would allow manufacturers to market generic drugs almost immediately after the expiry of a patent.

In the US, the expiry date is often extended for a few years to give the patent-holder time to adjust to the loss of sales before generic versions hit the market.

The irony of the situation is not lost on Teva, which admits it never intended its generic division to become such an important earner.

"We have come a long way with our generic drugs since the mid-1980s," says Dan Suesskind, Teva's chief financial officer.

"We found ourselves with a business which had its own merits. Our generic division overtook our strategy."

The US now accounts for 50 per cent of Teva's annual turnover, which last year reached \$740m and is set to exceed \$1.1bn this year. It has also forced Teva to reappraise its strategy.

Teva's ability to establish a foothold in the highly competitive US generic market was a mixture of trial and error. At first, like many Israeli companies, its strategy outside Israel was weak.

"Every time we were about to acquire a company we would get cold feet," explains Mr Suesskind.

With help from US consultants, Teva took the plunge. By 1996, it had merged under one roof Lemmon and Bio-craft Laboratories, both US pharmaceutical companies, calling the new unit Teva Pharmaceuticals USA.

The merger added nearly 30 products to Lemmon's product line, and Teva Pharmaceuticals USA now manufactures 24 of the country's top generic drugs.

During the 1990s, Teva also turned its attention to Europe, where sales now

account for 20 per cent of annual revenues. By the end of 1996, it had acquired Biogal, a Hungarian company, and APS/Berk, the UK's second largest generic pharmaceutical company. It also established a marketing subsidiary in Italy and a quality control laboratory in the Netherlands.

Analysts say Teva had little choice but to expand outside Israel, since the domestic market, which accounts for one-quarter of its turnover, was too small.

Not content with expanding its generic business, Teva is embarking on a strategy which could change the profile of the company.

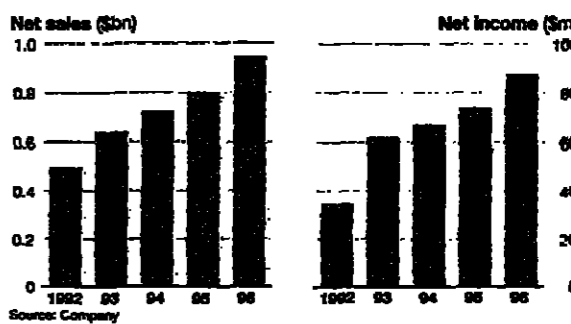
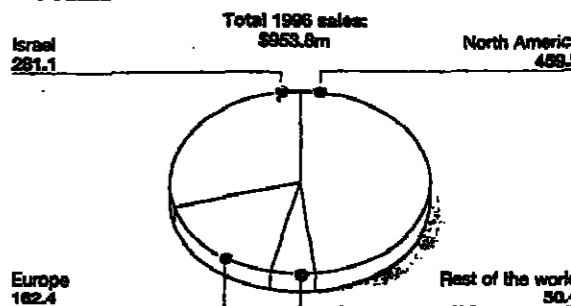
"We are moving into innovation drugs, particularly those for the central nervous system, and auto immune drugs," says Mr Suesskind. The drug that Teva is pinning its reputation on is Copaxone, a multiple sclerosis treatment designed to delay the progression of the disease.

Lehman Brothers, the US investment bank, reckons Copaxone could have sales of \$225m by the end of next year, following recent approval by authorities in the US, Canada and Israel. If, as expected, approval is granted in Europe next year, total sales could double over the next three years.

"This is a more realistic and attractive price that ignores Copaxone," says Ms Kodish. "The issue Teva must remember is that it must not bite the hand that feeds it - namely, its generic division."

But just as Teva recognises the merits of its generic division and the potential of developing central nervous system drugs, it

## Clean bill of health



investment spending on marketing and advertising," says Debra Kodish, analyst at Zannex Securities. Teva's research and development spending last year was \$80.4m, of which 40 per cent was earmarked for Copaxone.

In New York, Teva's shares, which are quoted as American Depositary Receipts, have fallen from a high of \$69 in April to about \$47 yesterday.

"This is a more realistic and attractive price that ignores Copaxone," says Ms Kodish. "The issue Teva must remember is that it must not bite the hand that feeds it - namely, its generic division."

With Teva's sharper focus on generic, innovation and chemicals divisions, it is hardly surprising that US pharmaceutical companies fear Israel's new patent law. "They know we have established ourselves in the US market. We don't intend to go away," Mr Suesskind says.

Judy Dempsey

## Toshiba links with Samsung in flash memory

By Michio Nakamoto in Tokyo

Toshiba and Samsung are linking up to support a format for 128-megabyte flash memory cards, which they hope will help establish a de facto standard in the growing market.

The Japanese and Korean electronics groups are supporting SmartMedia - Toshiba's brand of flash memory cards, which are used as memory storage devices in digital products.

The two companies have agreed a development schedule and plan to launch a SmartMedia card with a storage capacity of 128 megabytes in 2001.

The agreement highlights the growing competition to set the industry standard in flash memory cards. While the market for dynamic random access memory chips is expected to fall 25 per cent this year, the market for flash memory is forecast to rise by between 7 per cent and 8 per cent, said Toru Sasaki, industry analyst at SBC Warburg in Tokyo.

Since flash memory cards can store data in a small, light and cost-effective format, they are used in portable

products such as mobile phones and digital cameras.

The growing use of mobile communications and networking equipment is expected to help lift the market's value from \$6.6bn last year to \$4.8bn in 2000, Mr Sasaki said.

The increasing use of flash memory cards in the photographic market, where they are used as the "film" in digital cameras, is also expected to boost the market.

SmartMedia has about 71 per cent of this market and its share is forecast to rise to 83 per cent this year, according to one industry estimate.

The increase in capacity to 128 megabytes - the current generation is 64 megabytes - would offer digital camera users greater storage and better visuals, Toshiba said.

However, Toshiba and Samsung, which have long collaborated in the development of flash memory technology, face competition from the alliance formed by Intel and Sharp, and Advanced Micro Devices and Fujitsu.

The two US-Japan groups have established their formats as de facto industry standards.

## TO THE HOLDERS OF OLYMPIA &amp; YORK MAIDEN LANE FINANCE CORP. 104% Secured Notes Due 1995

## NOTICE OF INFORMAL MEETING OF NOTEHOLDERS

10:00 a.m. January 7, 1998  
Kelley Dye & Warren LLP  
101 Park Avenue  
Cook Conference Room, 29th Fl.  
New York, New York

We previously advised you that The Home Insurance Company ("Home") and its affiliate, Risk Enterprise Management Ltd., had entered into an agreement in principle with Marine Midland Bank, as Successor Indenture Trustee (the "Trustee"), and Mitchell E. Ruffin, as Receiver for Olympia & York Maiden Lane Company LLC ("O&Y Maiden"), to settle the lawsuit between Home, O&Y Maiden and the Trustee which is pending in the New York State Supreme Court for New York County.

We are pleased to inform you that after extensive negotiations between the parties, we anticipate that final documents evidencing the settlement will be executed by year-end. Closing of the settlement is subject to several conditions. Among other things, the documents provide that Marine Midland Bank, as Trustee, has agreed to use reasonable efforts to cause Olympia & York Maiden Lease Company LLC and Olympia & York Maiden Lane Finance Corp. (the "O&Y Entities") to be the subject of Chapter 11 cases under the United States Bankruptcy Code and (ii) to have the settlement documents approved by the Bankruptcy Court.

In order to cause the O&Y Entities to be the subject of Chapter 11 bankruptcy cases, both the Trustee and members of the ad hoc Committee of Noteholders (the "ad hoc Committee") have met with officers of World Financial Properties ("World"), the ultimate corporate parent to the O&Y Entities. After discussions, World has agreed to cause the O&Y Entities to file Chapter 11 petitions for a facilitation fee of \$650,000 (plus legal fees in an amount still being negotiated). World, however, has expressed its concern that, in light of the fact that the members of the ad hoc Committee do not hold a majority of the Notes, the Home settlement and any other actions to be taken with respect to the O&Y Maiden Lane premises (the "Building") may not enjoy the majority support of the Noteholders.

Accordingly, to address those concerns and to afford the Noteholders the opportunity to express their views with respect to the Home settlement and the Building, the Trustee, together with the ad hoc Committee, has scheduled a meeting of all Noteholders to be held at 10:00 a.m. on January 7, 1998, at the offices of Marine Midland Bank, as Trustee, Kelley Dye & Warren LLP, 101 Park Avenue, 29th Floor, Cook Conference Room in New York City. Representatives of World have indicated that they will be present at the meeting to respond to any questions or concerns raised by the Noteholders. Please note that this meeting is being convened as an informal meeting only to allow the Noteholders to share their views and ideas and that the Trustee does not have a complete list of all Noteholders in order to communicate to the holders from time to time, as necessary. Accordingly, we ask each holder who wishes to be added to the Trustee's list to contact Mr. Martin Cramer, Vice President of Marine Midland Bank, 140 Broadway, New York, New York 10005-1180 (fax no. (212) 486-6425) and indicate the holder's name, address and contact person.

The Trustee continues to work closely with the ad hoc Committee of Noteholders and the Trustee should write to Mr. Martin Cramer at the address set forth above, Counsel for the Trustee is David E. Ruffin, Esq., of Kelley Dye & Warren LLP Counsel for the ad hoc Committee and special counsel to the Trustee is Daniel Golden, Esq., of Cowi & Lerman LLP. Holders interested in joining the Committee are urged to call either Mr. Golden at (212) 905-4425 or Mr. Ruffin at (212) 905-7570.

Marine Midland Bank  
as Successor Indenture Trustee

December 11, 1997

## Bahia Bank

Bahia Bank Limited presents its new corporate identity:

B  
BM Bank

There has been no change in shareholding control nor in any other feature of the institution.

The following companies held by BBM Bank Group have changed names:

Bahia Bank Limited	BBM Bank Limited*
Bahia Securities Inc	BBM Securities Inc*
Banco da Bahia Investimentos SA	Banco BBM Investimentos SA
Bahia Corretora de Câmbio e Valores Mobiliários SA	BBM Corretora de Câmbio e Valores Mobiliários SA
Banco da Bahia SA	Banco BBM, Comercial, Crédito Imobiliário, Crédito, Financiamento e Investimento SA*

\*currently under approval



## TECHNOLOGY

Marcus Gibson on why an Englishman took his ground-breaking ideas to the US

## Perfect images on display

It is not often that an Englishman goes abroad and becomes the guiding light for one of the fastest-growing sectors of the US electronics industry.

But this has been the achievement of Malcolm Thompson, a former professor of electrical engineering at Sheffield University and one-time chief technologist at Xerox's famed Parc think-tank in Palo Alto, California.

In the past the US has lost out to the Japanese in several sectors of electronics manufacturing. But over the past five years Dr Thompson, 52, has fought to build a US manufacturing base in sophisticated computer monitors known as active-matrix flat panel displays. The displays, in which each pixel is linked to its own transistor, are widely viewed as the natural successors to conventional cathode ray tubes.

In the teeth of indifference and bureaucratic opposition, he founded and championed the US Display Consortium, a unique collaborative body that brings together 150 leading US companies, government agencies and various sector associations.

The story began in the early 1990s when Dr Thompson was among the first to recognise that active-matrix flat panel monitors could not only produce astonishingly detailed images, but also carry full motion video without the smearing that often plagues cathode ray tubes.

Such monitors – in effect the first "paper-quality" screens – are unaffected by magnetic fields, are almost distortion-free and require no bulky shielding in uses such as jet aircraft.

Their lightness means easy portability, but the crucial question Dr Thompson asked at the time was: would the US have any part in it when it had no manufacturing capability? "It is pointless to have 1 per cent or 0.1 per cent of any business," he says.

In 1992, 10 years after Dr Thompson arrived at Parc, he invited a dozen key industry figures to a Thai restaurant in Palo Alto. "For just \$35 – the cost of the wine – the technical and business road maps of the USDC were laid down," he says.

By playing the role of an "honest broker Brit with no axe to grind" to maximum effect, Dr Thompson persuaded bitter rivals to work together for mutual benefit. He insisted that companies joining the consortium should surrender intellectual property rights over manufacturing processes, and thereby "shut out" the lawyers at the outset.



Malcolm Thompson, an 'honest broker Brit', and an active-matrix flat panel display screen

When many of the companies – buyers or suppliers of displays – hesitated, Dr Thompson demanded: "Do you really want to be in the manufacturing equipment business?" No, they replied. "Then why are you so worried about intellectual property rights?" he retorted. Consent followed swiftly.

"I think at least 50 per cent joined because they were afraid they might lose out if they did not," says Dr Thompson.

The consortium opened its doors in July 1993, and Dr Thompson's vision began to turn into a classic model of top-level trans-sector co-ordination.

First, the three levels of the business – display buyers, display manufacturers and makers of display manufacturing equipment – were brought into a single forum, including Planar, Texas Instruments and Motorola.

Next, member companies discovered they could collaborate on projects, find buyers for product ideas or simply keep abreast of other projects' progress. They could even have their own technology judged independently by technical committees.

Today funds committed to working relationships by USDC members stand at \$110m (\$58m). "Thompson is the quiet bulldog," says Peter Mills, a former senior executive at the San Jose-based consortium. "He never gives up."

The obstacles Dr Thompson experienced in setting up the consortium were mirrored in his efforts to get Xerox involved in flat panel manufacturing.

In 1995 he had led the Xerox

**The group's success has profound lessons for Europe to promote high-risk technologies**

team that built a world record-breaking 7m-pixel, 14in active-matrix flat panel screen.

Japanese visitors to Parc were astounded by Xerox's achievements, which far exceeded their own efforts. The pixels were etched on to glass, not silicon, providing much greater clarity than the half million pixels typically found in laptops. The sys-

tem offered resolutions that were five times higher than those of high-definition television.

Later in 1995 Dr Thompson brokered an alliance between Xerox and AT&T to build a pilot manufacturing plant at Xerox, financed by \$50m from the

Defence Advanced Research Projects Agency (Darpa). But elation soon turned to frustration: Darpa funds were delayed, and worse still, AT&T withdrew. Dr Thompson warned Darpa that without urgent action Xerox would exit as well. He also had to overcome opposition within Xerox about going it alone.

In March last year Xerox finally launched the first-ever spin-off company to emerge from Parc, named dpx – a play on "dots per inch".

While the consortium gathered speed, dpx, whose chief executive is Dr Thompson, quickly prospered. In an ultra-modern factory across the street from Parc, the first wave of products appeared. These included the first of 30,000 US-made flat panel displays for US air force and RAF Hawk jet aircraft.

Markets are also emerging in

medical diagnostics, where the improved image clarity and readability could help deliver faster, more accurate diagnoses. Instant-scanning machines, for example, could tell doctors immediately if a patient's neck was broken.

Tim Bajarin, president of Creative Strategies, one of Xerox's partners, says: "The quality of the display itself has become the key technology focus of the computer."

Meanwhile, news of the consortium's success has spread. The Japanese equivalent, which includes NEC, Sanyo and Sharp, visits it once a year to compare notes and work out common industry standards. And the South Korean electronics groups, which are still riven with the kind of rivalry that once bedeviled the US sector, are ready to copy the consortium's model. "It's a net gain for everybody," says Dr Thompson.

Recently USDC entered politics. The board advised US president Bill Clinton's technology policy staff and US Congressmen on the strategic and economic importance of flat panel technology, much of it behind closed doors.

Dr Thompson says growth trends in the flat panel display sector equate to the early development of semi-conductors. By 2000, global revenue from flat panel displays is expected to reach \$20bn, up from \$1bn last year, says US sector analysts Stanford Resources.

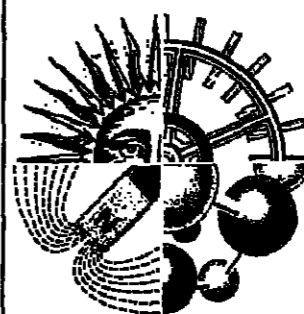
The success of the consortium has profound lessons for Europe, which could do well to copy such dynamic, pan-regional collaborations to promote fast-track, high-risk technologies. Yet Dr Thompson feels the chances of Europe copying the consortium model for flat panel displays, or many other industries, are not good.

Sector fragmentation, lack of critical mass, dependence on external manufacturing and overstuffed government bureaucracies result in much slower development, he says. "You need a driving force. Someone must take the initiative."

Dr Thompson believes that any organisation related to the European Commission could not do the job. "You'd probably have 10 people from each country represented," he says. "The USDC has just six full-time employees, and the entire Darpa budget of \$4.5bn annually is overseen by some 80 individuals."

"European trade bodies come here [to the US] loaded down with officials and support staff – but relatively few technicians."

## Worth Watching • Vanessa Houlder



## Shock research on mine detection

Plastic landmines pose a particularly worrying threat to civilian populations: they are cheap, easy to make, and they cannot be detected by conventional technology.

But research under way at the University at Buffalo might lead to an accurate and inexpensive method of detecting both metal and plastic landmines.

The technique involves sending weak shock waves into the soil, possibly using cheap microelectronic devices that could be dropped by an aircraft.

Acoustic signals would be reflected off buried objects such as landmines, providing information about their size and shape. The next step in the work, which is being funded by the US Army Corps of Engineers, will be experimental tests.

University of Buffalo: US, tel 716/6453262; e-mail goldbaum@news.buffalo.edu

## Plant gene project bears fruit

A tiny tomato plant that grows to a height of only 10cm is the basis of a technique developed by the Weizmann Institute in Israel to speed up the identification of commercially valuable genes in plants.

Identifying plant genes is a laborious process, in which radiation and chemicals are used to create random mutations in the plant's genetic code, which can then be linked to traits such as shape or taste. This process can be speeded up by using a genetic material called "transposons" which mark the exact spot on the plant's genome where a mutation has taken place. It can also be accelerated by using

large populations of the miniature tomato plants. These are so small that researchers can grow up to 1,000 plants per square metre. They also grow so rapidly that four generations of the plants can be produced every year.

Weizmann Institute: Israel, tel 9728934355; web, www.weizmann.ac.il

## Finding faults in chromosomes

Spectral Imaging, an Israel-based company, has developed an imaging technique to locate genetic aberrations in chromosomes. It is already being used in cancer research and could find applications in prenatal diagnostics research.

Its system, known as SpectraCube, relies on a combination of high performance imaging, computing and spectroscopy. It rapidly measures the spectrum of light from each point of a microscopic sample simultaneously, which is then analysed using powerful algorithms.

Applied Spectral Imaging: Israel, tel 97265547567; web, www.spectral-imaging.com

## Total recall for phone repeaters

The performance of mobile telephones in remote areas depends on digital repeaters that re-transmit signals to a base station. But the repeater stations need their own source of power, which can be a problem in remote areas. Generators require fossil fuel, while batteries must be replaced or recharged at regular intervals.

Solar power is the answer, according to researchers at the Fraunhofer Institute for Solar Energy Systems. They have developed a photovoltaic hybrid system which, they say, is cost-effective, rarely needs maintenance and has a long life. The computer-controlled system combines photovoltaic cells with a rechargeable battery and a gas-powered generator, which is only needed during prolonged periods of bad weather.

Fraunhofer Institute for Solar Energy: Germany, tel 761458227; fax 761458227

HELLENIC REPUBLIC  
MINISTRY OF DEVELOPMENT  
Request for Proposals (R.F.P.)

The Ministry of Development hereby invites interested parties for an international public tender process with sealed bids (without counter-bids), for the tourist development and long-term use, development operation of an area of 1,780 "stremmata" (1 stremma=1,000 m<sup>2</sup>) in the District of AFANTOU of the Island of Rhodes.

The bidding process will be administered by a Bidding Committee, set up for this purpose at the offices of the Ministry of Development, at 2 Amerikis Street, 5<sup>th</sup> Floor, Conference Room, on Monday 09/02/1998 from 10:00 to 12:00 hours.

All interested parties can obtain all the necessary information from the following day of this publication for Request for Proposals from the Ministry of Development offices at 2 Amerikis Street, 5<sup>th</sup> Floor, Room 534, Athens, Monday-Friday from 11:00 to 14:00 hours.

The Minister of Development  
Vassio Papandreou

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Your Legal Notices

Please contact  
Melanie Miles on  
Tel: +44 (0)171 873 3349  
Fax: +44 (0)171 873 3064

## LEGAL NOTICES

EUROPEAN SMALLER COMPANIES PLC  
(IN MEMBERSHIP VOLUNTARY LIQUIDATION)

NOTICE IS HEREBY GIVEN pursuant to Rule 1.10 of the Companies Act 1985 that the Company has been placed into a voluntary liquidation by the members of the Company on 11 December 1997. The liquidator is Mr. J. H. Miles, of the firm of J. H. Miles & Co., Chartered Accountants, 10, Abchurch Lane, London EC4N 3DF. The liquidator's office is at 10, Abchurch Lane, London EC4N 3DF. The liquidator's office is at 10, Abchurch Lane, London EC4N 3DF. The liquidator's office is at 10, Abchurch Lane, London EC4N 3DF.

A general meeting of the members of the Company will be held at 10, Abchurch Lane, London EC4N 3DF, on Thursday, 11 December 1997, at 10.00 am. The business of the meeting will be to pass a resolution to wind up the Company voluntarily.

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VIEWPOINT  
Special Edition

A timely message to Commerzbank's  
international clients and shareholders

Commerzbank  
broadening reach  
and expertise in  
Global Equities

To meet the objectives of its clients and shareholders worldwide, the Commerzbank Group is concentrating its activities for the future on three main areas of business: international finance, investment banking, and domestic branch banking. This special edition of Viewpoint focuses on the Group's overall strategy in global equities.

## EARNINGS UP 52% AFTER NINE MONTHS 1997.

In the first three quarters of 1997, the Commerzbank Group posted a pre-tax profit of DM 2.54 billion – a 52% increase over the comparable year-earlier period. This result surpassed the record earnings of the entire year 1996 by more than one-third, well ahead of projections for the current year. Total assets advanced to DM 515 billion. Including a capital increase of DM 1.6 billion in October, the Group's equity capital is DM 15.1 billion. After-tax return on equity is nearly 15%, positioning Commerzbank as one of Germany's most profitable financial institutions.

## INVESTMENT BANKING: STRONG EXPANSION.

Investment banking is a traditional strength of the Commerzbank Group. This segment encompasses bonds and equities, asset management, and corporate finance. The Group's strategy in international investment banking

is to base its core units in Frankfurt, supported by strong outlets operating in other key international financial centers.

**GLOBAL EQUITIES: ORGANIC GROWTH.** Commerzbank has taken decisive steps to expand its international global equities capabilities rapidly but judiciously from within the Group, rather than through acquisitions. The aim is to gain a competitive edge by building on the existing strengths of Commerzbank and providing a source of synergy for new areas. This path of organic growth in a market of vast potential offers significant advantages with regard to costs, profitability, and quality of service.

Commerzbank's equities arm is combining its sales, trading, research, capital markets and derivatives operations worldwide into an integrated service designed to meet the individual requirements of the bank's current and potential clients in equity markets. A large number of new products and services will also be systematically added to those already offered as well as a Fundamental and Quantitative Research Center. The equities operation will offer well-balanced market coverage, so that its earnings are not overly dependent on the performance of any one location.

Unique among global investment banks, Commerzbank's Global Equities division is centered in Frankfurt and backed by experienced teams in London, New York, Tokyo, Hong Kong and Singapore. New offices and trading floors are being created in Frankfurt and in all of these other centers – enabling us to proceed with another ambitious recruitment program planned for 1998.

**REWARDING PERSPECTIVES:** It all adds up to a winning formula for clients seeking a solid investment banking partner and for Commerzbank's 225,000 shareholders worldwide. To start a dialogue with Commerzbank about global equities, just get in touch with us at: Commerzbank AG, Global Equities Division, Frankfurt am Main (Head Office), Tel. (69) 13 62-91 38, Fax (69) 13 62-24 44

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COMMERZBANK

## INTERNATIONAL CAPITAL MARKETS

## UK gilts outperform in Europe

**GOVERNMENT BONDS**  
By Vincent Boland  
in London and John Authers  
in New York

Government bond markets ended mixed yesterday as the spotlight switched to equity markets after a sharp early fall on Wall Street.

Most of the markets' investors were waiting for figures to be released today on US retail sales for last month, and were content to sit out the day on the sidelines.

UK GILTS were again the best performing of the European markets as the positive tone set by this week's benign inflation outlook continued to impress investors.

The minutes of the November meeting of the Bank of England's monetary policy committee showed, however, that it did not believe UK interest rates had yet peaked.

The March futures contract settled at higher at 120 1/2 in moderate volume of about 58,000 trades, while the spread over 10-year Ger-

man bunds was unchanged at 111 basis points after a modest rise in bunds.

Earlier, the gilt market had shrugged off a disappointing outcome to the Bank of England's auction of £2bn of the new 6.5 per cent five-year benchmark bond.

The auction attracted bids for 1.77 times the amount on offer, but traders had been expecting a higher subscription, of at least twice the offer.

However, Kevin Adams, gilt strategist at Barclays Capital, said the five-year sector had rallied ahead of the auction so the new bond was trading expensively, which accounted for the lacklustre demand.

GERMAN BONDS staged a modest recovery and pushed European markets higher. The March contract settled up 0.09 at 103 1/2, but in low volumes in both London and Frankfurt.

The yield on the 10-year bund stood at 5.39 per cent, down marginally from the previous session and again heading for its record low.

Analysts said bond investors were quiet ahead of today's US retail sales figures, underlining the continued influence of the Treasury market to set the overall tone of markets, even if Europe occasionally has a day when domestic factors predominate, as happened on Monday.

However, the modest rise was enough to underpin small gains elsewhere. FRENCH BONDS edged slightly higher, with the December and March contracts each settling up 0.06, at 100.72 and 100.26 respectively. The spread over 10-year bunds stood at just one basis point.

Earlier the December contract had again touched its high of 100.86, but failed to break through it. Much of the day's modest activity was dominated by rolling over from the December to the March contract.

SPANISH BONDS had a very quiet session ahead of official data on November inflation, which are expected to be released tomorrow. If

the figure remains modest - inflation in the year to October was 1.9 per cent - the Bank of Spain is expected to go ahead with a long-awaited interest rate cut.

However, any rate cut has been firmly discounted in bond prices, and analysts said the danger was on the downside. The December bond futures contract settled 0.02 lower at 105.42, while the March contract settled 0.02 higher at 104.98.

The US TREASURY market was quiet in morning trading as continued problems in the emerging markets and in US equities allowed bond yields to benefit from further "flight to quality" buying.

Rumours about the health of Boris Yeltsin, the Russian president, helped sentiment, as did concerns about the International Monetary Fund bail-out for South Korea and attempts to stabilise the Japanese banking system.

By mid-session, the benchmark 30-year Treasury long bond had gained 1/4 to 100 1/2,

yielding 6.09 per cent. There were similar gains across the yield curve, with the two-year bond up 1/4 to 99 1/2, yielding 5.76 per cent.

There was very little news to stimulate the market, and volumes were generally thin, although third-quarter current account figures, which were better than expected, may have affected trading.

Prices fell slightly in early trading, but soon staged a recovery as other markets continued to suffer deep concern about the Asian economy and its possible effects on the US.

Kevin Logan, chief markets economist at Dresdner Kleinwort Benson in New York, said it was hard to be aggressively short in the US bond market at the moment.

"People are convinced that the Federal Reserve will not tighten monetary policy given the international situation," he said, "and there's great apprehension that at any moment some international event could happen which would push the Treasury market back up again."

## Biggest fund launched in Egypt

By Mark Hubbard in Cairo

Egypt's six largest financial institutions have launched the country's biggest single managed investment fund, with authorised capital of £250m (\$294m) earmarked for domestic securities.

The five-year, closed-end Egyptian International Fund, formed after two months of negotiations, will be the largest of the country's 16 domestic managed funds.

The leading stakeholder is the £250m state pension fund, which has invested £250m.

The second largest shareholder is Misr Insurance Company, which has invested £250m. Equal shareholders with £250m are Egypt's four state-owned banks - National Bank of Egypt, Banque Misr, Banque du Caire and Bank of Alexandria.

The fund, into which £250m had been deposited by yesterday, is expected to reach £250m in six months and grow further, particularly if Egyptian share prices remain at their current attractive level.

The EIF will be managed by Cairo-based Concord International Investments, which currently manages two onshore and two offshore Egyptian funds.

"With price earnings ratios getting closer to what they were in 1996, we couldn't be happier about the timing of the new fund's finalisation," said Mohamed Younes, Concord chairman.

The launch of the EIF is a significant step forward for state-owned financial institutions whose investment potential the government is determined fully to exploit.

## Gilt auction fails to boost strips

A Bank of England auction yesterday failed to lift interest in the UK's new gilt strips market. The market has been subdued since its launch at the start of last week, struggling to overcome uncertainty over interest rates. In the market the component parts of a conventional gilt are separated and traded as distinct securities.

Like the last big innovation in the UK government bond market - the introduction of repo trading in January last year - the strips market is being closely watched by potential investors. But most appear to be waiting for someone else to try it out first.

The Bank yesterday auctioned a £20m tranche of a new five-year strip, bringing to eight the number of gilts available for trading in the market - which now has a valuation of some £500m. By some estimates this makes it the third biggest strip market in the world, after the US and France. Many analysts said the market should become much more active from early next year, when big fund management and life assurance companies, seen as the main investors in strips, had assessed its usefulness for their investment strategies.

"The natural time for people to buy strips is when they are very bullish. Everybody is just a little cautious at the moment," said Colin Harte, head of bonds at Gartmore Investment Management. "People have been dabbling a bit but there won't be a big push until next year."

There has been some hesitant trading and evidence of early foreign investor interest. US and European bond markets have well-developed strips markets.

Vincent Boland

## UK GILTS TRADING

## SocGen appoints six staff

Société Générale, the French bank, has appointed six people to its UK gilts sales and trading team in London as part of a strategy of pan-European coverage of bond markets before the introduction of the single currency.

Four of the new appointees came from Daiwa, which withdrew as a gilt-edged market-maker earlier this year. They are Robert Dobson and Amanda Ford, who were appointed to the UK institutional sales team, and Alexander Krick and Louise Martin, who were appointed to gilts trading. SocGen also hired Howard Roberts and Tilly Russell from NatWest Markets to join the UK institutional sales team.

This year SocGen has been concentrating all non-French franc government bond trading and sales in London, a move that will be completed on January 1 when trading in Spanish bonds is moved from Madrid.

Philippe Rakotovao, head of fixed income at SocGen in London, said the bank was building "a critical mass" in trading and distribution in London to meet client requirements. "It is very important that our distribution force is backed by a strong trading ability," he said.

Vincent Boland

## Westpac issues \$300m FRN

**INTERNATIONAL BONDS**  
By Edward Luce

The markets took a breather yesterday, with many banks turning their attention to a predicted spate of Asian mandates for early 1998. The Korean Development Bank will hold an investors conference in New York today to discuss terms for its planned \$2bn three-year bond issue.

In the primary markets, WESTPAC, the Australian bank, led the field with a \$300m floating-rate note issue. Officials at HSBC Mar-

kets, sole lead manager, said the borrower wanted to access the markets in advance of the predicted scramble in January.

"There is likely to be a huge amount of supply next month and a lot of pressure on spreads," said the official. "Westpac wanted to fulfil its funding requirements now while supply is still relatively scarce."

In addition, Westpac wanted to take advantage of the fact that there will be \$2.2bn of redemptions in the floating-rate dollar sector in the last half of December.

## New international bond issues

Borrower	Amount	Coupon	Price	Maturity	Yield	Spread	Book-runner
US DOLLARS							
Westpac Banking Corp	300	(a)	98.748	Jan 2003	0.15R		HSBC Markets
Banco S.P.A. C.A. (Italy)	100	(a)	100.00R	Sep 2002	0.357R		Salomon Smith Barney
Banco S.P.A. C.A. (Italy)	100	(a)	100.00R	Dec 2007	0.475R		Salomon Smith Barney
FRENCH FRANCS							
Reinhold Hypothek	10m	(a)	100.10R	Jan 2003	0.35R		CAVOC Marchés
Reinhold Hypothek	300	(a)	100.15	Jan 2003	0.15		CAVOC Marchés
ITALIAN LIRA							
European Investment Bank	200m	(a)	99.80R	Jan 2003	0.575R		Servis International
NEW ZEALAND DOLLARS							
National Australia Bank	100	6.00	101.05	Jan 2000	1.25		Hambros Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. (a) Unlisted. (b) Floating-rate note. (c) Fixed rate price; fees shown at re-offer level. (d) 3-month Libor rate. (e) Student Loan Finance Corp. (f) A-1, asset-backed notes. (g) Legal maturity: Dec 04. Average life: 2.51 years. (h) 1-month Libor +200bp. (i) Legal maturity: Dec 21. Average life: 7.76 years. (j) 1-month Libor +275bp. (k) 1-month Libor +275bp. (l) 1-month Libor +275bp. (m) 1-month Libor +275bp. (n) 1-month Libor +275bp. (o) 1-month Libor +275bp. (p) 1-month Libor +275bp. (q) 1-month Libor +275bp. (r) 1-month Libor +275bp. (s) 1-month Libor +275bp. (t) 1-month Libor +275bp. (u) 1-month Libor +275bp. (v) 1-month Libor +275bp. (w) 1-month Libor +275bp. (x) 1-month Libor +275bp. (y) 1-month Libor +275bp. (z) 1-month Libor +275bp. (aa) 1-month Libor +275bp. (ab) 1-month Libor +275bp. (ac) 1-month Libor +275bp. (ad) 1-month Libor +275bp. 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# Yen rises on intervention threats

## MARKETS REPORT

By Simon Kuper

The yen rallied again yesterday as Japanese officials threatened with intervention in the market to support their currency.

Talk that Japan would produce a ¥10,000bn package to help its troubled banks also pushed the yen clear of the ¥130 level against the dollar. The ruling Liberal Democratic Party's financial stabilisation committee discussed a package yesterday.

When asked if there was a chance of concerted multinational intervention to support the yen, Haruhiko Kuroda, director general of the Japanese finance ministry's international finance bureau, said yesterday: "There is always (such a chance)."

Hisuoka Sakakibara, vice finance minister for international affairs, said that an

excessively weak yen was undesirable and that Japan would take appropriate steps in the currency markets.

Philippe Majumder, currency strategist at Bankers Trust in London, said on Tuesday that she had gathered from conversations with Japanese ministry of finance officials that Tokyo planned to intervene soon.

The yen rose ¥0.9 against the dollar to close in London at ¥129.0. Michael Wallace, senior currency economist at S&P's M&M in London, said significant amounts of yen had been bought against the pound this week, as prospects of further UK interest rate rises diminished. Sterling yesterday dropped ¥0.6 against the yen to ¥213.1. The news that the Bank of

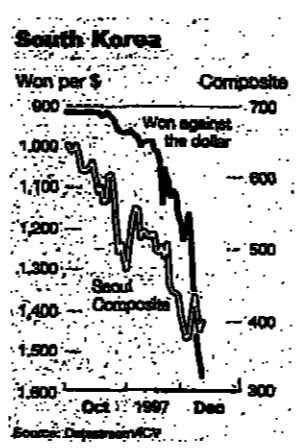
England's monetary policy committee had voted unanimously for last month's interest rate rise made little market impact.

The Swiss franc, the safe haven from international crisis, rose on fears for the health of Boris Yeltsin, the Russian president. The Kremlin said he had an acute respiratory viral infection and would stay in a sanatorium for 10 to 12 days.

The Swiss franc gained 1.9 centimes against the dollar and 0.6 centimes against the D-Mark to close at Sfr1.443 and Sfr1.609 respectively.

The D-Mark rose 1.2 pfennigs against the dollar to Dm1.783, reversing its recent slide.

Within 30 minutes of trading opening, the South Korean won plunged to its lowest limit for the day of 1,585.9 against the dollar. Few investors believe that the \$70bn rescue package brokered for the country by the



International Monetary Fund last week will prove a panacea.

However, the won's fall failed to infect other emerging market currencies. Foreign exchange strategists said that the contagion effect, so strong in global markets in recent months, appeared to be fading. The recent gains in equity markets were proof of that.

The yen, given up by many for dead, has rebounded this week. Avinash Persaud, head of global foreign exchange research at J.P. Morgan in Europe, cites three reasons. Firstly, the repeated threats of intervention have begun to register with the market. Secondly, almost every investor is already long the dollar, leaving precious few new potential buyers.

And thirdly, says Mr Persaud, there could be a significant side effect of Japan's expected issue of ¥10,000bn in bonds. The yen has fallen in the last year largely because Japanese investors have been sending their money abroad. A large

domestic bond issue could attract some of their capital, reducing outflows from yen into dollars.

Will Japan really intervene in the market? Probably not yet, says Robert Lynch, currency strategist at Paribas Capital Markets in New York. He says it is natural for Japanese officials to be making warning noises now, because the dollar has shot up by ¥10 in a matter of weeks while suffering almost no reverses. Tokyo does not want investors to think that buying dollars is a one-way bet, says Mr Lynch.

Japan may also want to wait for the market to become less bullish about the dollar before intervening. Mr Lynch says that the history of the dollar's fall in 1994-1995 showed that when central banks intervened with the market trend, they succeeded; when they tried pushing the market in the new direction, they did not.

## POUND SPOT FORWARD AGAINST THE POUND

Dec 10	Closing	Change	Settlement	Day's	One	Three	One	Bank
	mid-point	on day	spread	high	month	months	year	of
					Rate	Rate	Rate	Index
Europe	(Sfr)	20,719	-0.0014	83	-30	20,679	20,656	20,547
Australia	(A\$)	80,757	-0.0014	83	-30	80,757	80,757	80,757
Belgium	(Bfr)	11,214	-0.0014	83	-30	11,214	11,214	11,214
Denmark	(DKr)	11,214	-0.0014	83	-30	11,214	11,214	11,214
France	(FFr)	8,870	-0.0014	83	-30	8,870	8,870	8,870
Germany	(DM)	2,944	-0.0014	83	-30	2,944	2,944	2,944
Greece	(Dr)	462,886	-0.0014	83	-30	462,886	462,886	462,886
India	(Rs)	1,187	-0.0014	83	-30	1,187	1,187	1,187
Italy	(Lira)	60,757	-0.0014	83	-30	60,757	60,757	60,757
Japan	(¥)	12,900	-0.0014	83	-30	12,900	12,900	12,900
Netherlands	(Gld)	3,180	-0.0014	83	-30	3,180	3,180	3,180
Norway	(Nkr)	11,917	-0.0014	83	-30	11,917	11,917	11,917
Portugal	(Esc)	30,688	-0.0014	83	-30	30,688	30,688	30,688
Spain	(Ptas)	248,740	-0.0014	83	-30	248,740	248,740	248,740
Sweden	(Skr)	12,850	-0.0014	83	-30	12,850	12,850	12,850
Switzerland	(Sfr)	2,944	-0.0014	83	-30	2,944	2,944	2,944
UK	(£)	1,219	-0.0014	83	-30	1,219	1,219	1,219
USA	(\$)	1,219	-0.0014	83	-30	1,219	1,219	1,219

## CROSS RATES AND DERIVATIVES

### EXCHANGE CROSS RATES

Dec 10	Dec 9	Dec 8	Dec 7	Dec 6	Dec 5	Dec 4	Dec 3	Dec 2	Dec 1	Nov 30	Nov 29	Nov 28	Nov 27	Nov 26	Nov 25	Nov 24	Nov 23	Nov 22	Nov 21	Nov 20	Nov 19	Nov 18	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 7	Nov 6	Nov 5	Nov 4	Nov 3	Nov 2	Nov 1	Oct 31	Oct 30	Oct 29	Oct 28	Oct 27	Oct 26	Oct 25	Oct 24	Oct 23	Oct 22	Oct 21	Oct 20	Oct 19	Oct 18	Oct 17	Oct 16	Oct 15	Oct 14	Oct 13	Oct 12	Oct 11	Oct 10	Oct 9	Oct 8	Oct 7	Oct 6	Oct 5	Oct 4	Oct 3	Oct 2	Oct 1	Sep 30	Sep 29	Sep 28	Sep 27	Sep 26	Sep 25	Sep 24	Sep 23	Sep 22	Sep 21	Sep 20	Sep 19	Sep 18	Sep 17	Sep 16	Sep 15	Sep 14	Sep 13	Sep 12	Sep 11	Sep 10	Sep 9	Sep 8	Sep 7	Sep 6	Sep 5	Sep 4	Sep 3	Sep 2	Sep 1	Aug 31	Aug 30	Aug 29	Aug 28	Aug 27	Aug 26	Aug 25	Aug 24	Aug 23	Aug 22	Aug 21	Aug 20	Aug 19	Aug 18	Aug 17	Aug 16	Aug 15	Aug 14	Aug 13	Aug 12	Aug 11	Aug 10	Aug 9	Aug 8	Aug 7	Aug 6	Aug 5	Aug 4	Aug 3	Aug 2	Aug 1	Jul 31	Jul 30	Jul 29	Jul 28	Jul 27	Jul 26	Jul 25	Jul 24	Jul 23	Jul 22	Jul 21	Jul 20	Jul 19	Jul 18	Jul 17	Jul 16	Jul 15	Jul 14	Jul 13	Jul 12	Jul 11	Jul 10	Jul 9	Jul 8	Jul 7	Jul 6	Jul 5	Jul 4	Jul 3	Jul 2	Jul 1	Jun 30	Jun 29	Jun 28	Jun 27	Jun 26	Jun 25	Jun 24	Jun 23	Jun 22	Jun 21	Jun 20	Jun 19	Jun 18	Jun 17	Jun 16	Jun 15	Jun 14	Jun 13	Jun 12	Jun 11	Jun 10	Jun 9	Jun 8	Jun 7	Jun 6	Jun 5	Jun 4	Jun 3	Jun 2	Jun 1	May 31	May 30	May 29	May 28	May 27	May 26	May 25	May 24	May 23	May 22	May 21	May 20	May 19	May 18	May 17	May 16	May 15	May 14	May 13	May 12	May 11	May 10	May 9	May 8	May 7	May 6	May 5	May 4	May 3	May 2	May 1	Apr 30	Apr 29	Apr 28	Apr 27	Apr 26	Apr 25	Apr 24	Apr 23	Apr 22	Apr 21	Apr 20	Apr 19	Apr 18	Apr 17	Apr 16	Apr 15	Apr 14	Apr 13	Apr 12	Apr 11	Apr 10	Apr 9	Apr 8	Apr 7	Apr 6	Apr 5	Apr 4	Apr 3	Apr 2	Apr 1	Mar 31	Mar 30	Mar 29	Mar 28	Mar 27	Mar 26	Mar 25	Mar 24	Mar 23	Mar 22	Mar 21	Mar 20	Mar 19	Mar 18	Mar 17	Mar 16	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11	Mar 10	Mar 9	Mar 8	Mar 7	Mar 6	Mar 5	Mar 4	Mar 3	Mar 2	Mar 1	Feb 28	Feb 27	Feb 26	Feb 25	Feb 24	Feb 23	Feb 22	Feb 21	Feb 20	Feb 19	Feb 18	Feb 17	Feb 16	Feb 15	Feb 14	Feb 13	Feb 12	Feb 11	Feb 10	Feb 9	Feb 8	Feb 7	Feb 6	Feb 5	Feb 4	Feb 3	Feb 2	Feb 1	Jan 31	Jan 30	Jan 29	Jan 28	Jan 27	Jan 26	Jan 25	Jan 24	Jan 23	Jan 22	Jan 21	Jan 20	Jan 19	Jan 18	Jan 17	Jan 16	Jan 15	Jan 14	Jan 13	Jan 12	Jan 11	Jan 10	Jan 9	Jan 8	Jan 7	Jan 6	Jan 5	Jan 4	Jan 3	Jan 2	Jan 1	Dec 31	Dec 30	Dec 29	Dec 28	Dec 27	Dec 26	Dec 25	Dec 24	Dec 23	Dec 22	Dec 21	Dec 20	Dec 19	Dec 18	Dec 17	Dec 16	Dec 15	Dec 14	Dec 13	Dec 12	Dec 11	Dec 10	Dec 9	Dec 8	Dec 7	Dec 6	Dec 5	Dec 4	Dec 3	Dec 2	Dec 1	Nov 30	Nov 29	Nov 28	Nov 27	Nov 26	Nov 25	Nov 24	Nov 23	Nov 22	Nov 21	Nov 20	Nov 19	Nov 18	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 7	Nov 6	Nov 5	Nov 4	Nov 3	Nov 2	Nov 1	Oct 31	Oct 30	Oct 29	Oct 28	Oct 27	Oct 26	Oct 25	Oct 24	Oct 23	Oct 22	Oct 21	Oct 20	Oct 19	Oct 18	Oct 17	Oct 16	Oct 15	Oct 14	Oct 13	Oct 12	Oct 11	Oct 10	Oct 9	Oct 8	Oct 7	Oct 6	Oct 5	Oct 4	Oct 3	Oct 2	Oct 1	Sep 30	Sep 29	Sep 28	Sep 27	Sep 26	Sep 25	Sep 24	Sep 23	Sep 22	Sep 21	Sep 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26	Nov 25	Nov 24	Nov 23	Nov 22	Nov 21	Nov 20	Nov 19	Nov 18	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 7	Nov 6	Nov 5	Nov 4	Nov 3	Nov 2	Nov 1	Oct 31	Oct 30	Oct 29	Oct 28	Oct 27	Oct 26	Oct 25	Oct 24	Oct 23	Oct 22	Oct 21	Oct 20	Oct 19	Oct 18	Oct 17	Oct 16	Oct 15	Oct 14	Oct 13	Oct 12	Oct 11	Oct 10	Oct 9	Oct 8	Oct 7	Oct 6	Oct 5	Oct 4	Oct 3	Oct 2	Oct 1	Sep 30	Sep 29	Sep 28	Sep 27	Sep 26	Sep 25	Sep 24	Sep 23	Sep 22	Sep 21	Sep 20	Sep 19	Sep 18	Sep 17	Sep 16	Sep 15	Sep 14	Sep 13	Sep 12	Sep 11	Sep 10	Sep 9	Sep 8	Sep 7	Sep 6	Sep 5	Sep 4	Sep 3	Sep 2	Sep 1	Aug 31	Aug 30	Aug 29	Aug 28	Aug 27	Aug 26	Aug 25	Aug 24	Aug 23	Aug 22	Aug 21	Aug 20	Aug 19	Aug 18	Aug 17	Aug 16	Aug 15	Aug 14	Aug 13	Aug 12	Aug 11	Aug 10	Aug 9	Aug 8	Aug 7	Aug 6	Aug 5	Aug 4	Aug 3	Aug 2	Aug 1	Jul 31	Jul 30	Jul 29	Jul 28	Jul 27	Jul 26	Jul 25	Jul 24	Jul 23	Jul 22	Jul 21	Jul 20	Jul 19	Jul 18	Jul 17	Jul 16	Jul 15	Jul 14	Jul 13	Jul 12	Jul 11	Jul 10	Jul 9	Jul 8	Jul 7	Jul 6	Jul 5	Jul 4	Jul 3	Jul 2	Jul 1	Jun 30	Jun 29	Jun 28	Jun 27	Jun 26	Jun 25	Jun 24	Jun 23	Jun 22	Jun 21	Jun 20	Jun 19	Jun 18	Jun 17	Jun 16	Jun 15	Jun 14	Jun 13	Jun 12	Jun 11	Jun 10	Jun 9	Jun 8	Jun 7	Jun 6	Jun 5	Jun 4	Jun 3	Jun 2	Jun 1	May 31	May 30	May 29	May 28	May 27	May 26	May 25	May 24	May 23	May 22	May 21	May 20	May 19	May 18	May 17	May 16	May 15	May 14	May 13	May 12	May 11	May 10	May 9	May 8	May 7	May 6	May 5	May 4	May 3	May 2	May 1	Apr 30	Apr 29	Apr 28	Apr 27	Apr 26	Apr 25	Apr 24	Apr 23	Apr 22	Apr 21	Apr 20	Apr 19	Apr 18	Apr 17	Apr 16	Apr 15	Apr 14	Apr 13	Apr 12	Apr 11	Apr 10	Apr 9	Apr 8	Apr 7	Apr 6	Apr 5	Apr 4	Apr 3	Apr 2	Apr 1	Mar 31	Mar 30	Mar 29	Mar 28	Mar 27	Mar 26	Mar 25	Mar 24	Mar 23	Mar 22	Mar 21	Mar 20	Mar 19	Mar 18	Mar 17	Mar 16	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11	Mar 10	Mar 9	Mar 8	Mar 7	Mar 6	Mar 5	Mar 4	Mar 3	Mar 2	Mar 1	Feb 28	Feb 27	Feb 26	Feb 25	Feb 24	Feb 23	Feb 22	Feb 21	Feb 20	Feb 19	Feb 18	Feb 17	Feb 16	Feb 15	Feb 14	Feb 13	Feb 12	Feb 11	Feb 10	Feb 9	Feb 8	Feb 7	Feb 6	Feb 5	Feb 4	Feb 3	Feb 2	Feb 1	Jan 31	Jan 30	Jan 29	Jan 28	Jan 27	Jan 26	Jan 25	Jan 24	Jan 23	Jan 22	Jan 21	Jan 20	Jan 19	Jan 18	Jan 17	Jan 16	Jan 15	Jan 14	Jan 13	Jan 12	Jan 11	Jan 10	Jan 9	Jan 8	Jan 7	Jan 6	Jan 5	Jan 4	Jan 3	Jan 2	Jan 1	Dec 31	Dec 30	Dec 29	Dec 28	Dec 27	Dec 26	Dec 25	Dec 24	Dec 23	Dec 22	Dec 21	Dec 20	Dec 19	Dec 18	Dec 17	Dec 16	Dec 15	Dec 14	Dec 13	Dec 12	Dec 11	Dec 10	Dec 9	Dec 8	Dec 7	Dec 6	Dec 5	Dec 4	Dec 3	Dec 2	Dec 1	Nov 30	Nov 29	Nov 28	Nov 27	Nov 26	Nov 25	Nov 24	Nov 23	Nov 22	Nov 21	Nov 20	Nov 19	Nov 18	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 7	Nov 6	Nov 5	Nov 4	Nov 3	Nov 2	Nov 1	Oct 31	Oct 30	Oct 29	Oct 28	Oct 27	Oct 26	Oct 25	Oct 24	Oct 23	Oct 22	Oct 21	Oct 20	Oct 19	Oct 18	Oct 17	Oct 16	Oct 15	Oct 14	Oct 13	Oct 12	Oct 11	Oct 10	Oct 9	Oct 8	Oct 7	Oct 6	Oct 5	Oct 4	Oct 3	Oct 2	Oct 1	Sep 30	Sep 29	Sep 28	Sep 27	Sep 26	Sep 25	Sep 24	Sep 23	Sep 22	Sep 21	Sep 20	Sep 19	Sep 18	Sep 17	Sep 16	Sep 15	Sep 14	Sep 13	Sep 12	Sep 11	Sep 10	Sep 9	Sep 8	Sep 7	Sep 6	Sep 5	Sep 4	Sep 3	Sep 2	Sep 1	Aug 31	Aug 30	Aug 29	Aug 28	Aug 27	Aug 26	Aug 25	Aug 24	Aug 23	Aug 22	Aug 21	Aug 20	Aug 19	Aug 18	Aug 17	Aug 16	Aug 15	Aug 14	Aug 13	Aug 12	Aug 11	Aug 10	Aug 9	Aug 8	Aug 7	Aug 6	Aug 5	Aug 4	Aug 3	Aug 2	Aug 1	Jul 31	Jul 30	Jul 29	Jul 28	Jul 27	Jul 26	Jul 25	Jul 24	Jul 23	Jul 22	Jul 21	Jul 20	Jul 19	Jul 18	Jul 17	Jul 16	Jul 15	Jul 14	Jul 13	Jul 12	Jul 11	Jul 10	Jul 9	Jul 8	Jul 7	Jul 6	Jul 5	Jul 4	Jul 3	Jul 2	Jul 1	Jun 30	Jun 29	Jun 28	Jun 27	Jun 26	Jun 25	Jun 24	Jun 23	Jun 22	Jun 21	Jun 20	Jun 19	Jun 18	Jun 17	Jun 16	Jun 15	Jun 14	Jun 13	Jun 12	Jun 11	Jun 10	Jun 9	Jun 8	Jun 7	Jun 6	Jun 5	Jun 4	Jun 3	Jun 2	Jun 1	May 31	May 30	May 29	May 28	May 27	May 26	May 25	May 24	May 23	May 22	May 21	May 20	May 19	May 18	May 17	May 16	May 15	May 14	May 13	May 12	May 11	May 10	May 9	May 8	May 7	May 6	May 5	May 4	May 3	May 2	May 1	Apr 30	Apr 29	Apr 28	Apr 27	Apr 26	Apr 25	Apr 24	Apr 23	Apr 22	Apr 21	Apr 20	Apr 19	Apr 18	Apr 17	Apr 16	Apr 15	Apr 14	Apr 13	Apr 12	Apr 11	Apr 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## COMMODITIES AND AGRICULTURE

## Guinea to restructure bauxite company

By Kenneth Gooding, Mining Correspondent

The world's largest bauxite exporter, Compagnie des Bauxites de Guinée (CBG), is to be restructured and its position as one of Africa's leading mining companies will be more clearly seen, according to Guinea's minister of natural resources and energy.

"The potential is huge," said Fassiné Fofana. "CBG is already making more money than Ashanti Goldfields." Ashanti reported pre-tax profits of \$60m for 1996.

CBG is a joint venture between the government and Halco, whose shareholders include Alcan of Canada, Alcoa and Reynolds of the US, Pechiney of France, Comalco of Australia and Germany's VAW.

Mr Fofana said shareholders agreed CBG should have an independent management, the ability to borrow on its own account and be able to market its product internationally rather than just to shareholders.

CBG produces an annual 13m tonnes of bauxite, the raw material for alumina, which is used to make aluminium. This makes the West African country the world's second largest producer after Australia.

Previously the government has pressed CBG to build an alumina refinery to add value to the raw material before it is exported. Mr Fofana said this pressure has gone.

"The time will come when the new management will decide that it is better to convert [the bauxite] in Guinea," he said. "We must let the market decide when."

All of Guinea's mining sector is to be privatised. "We want to get the government out of the [mining] business and put it on a professional footing," said Mr Fofana. The World Bank helped identify SBC Warburg Dillon Read, the investment bank, to advise on this process.

Guinea is being advised by London based African Investments in connection with Africa's only alumina producer, Frigida, which in April filed for court protection from its creditors.

It is now the subject of a dispute between the consortium of foreign aluminium companies that are shareholders and the government at the Geneva arbitration court.

Mr Fofana claimed the consortium, led by Pechiney of France and also including Alcan, Hydro Aluminium of Norway and Canada's Noranda, failed to invest adequately in Frigida. He suggests \$100m is needed to bring its costs down to normal levels.

Guinea's central bank provided credit so Frigida's staff could be paid at one point but the business is now self-supporting under Guinean management.

The government intends to reduce its shareholding in Frigida from 49 per cent to between 15 per cent and 20 per cent and is talking to other potential partners.

"We want Frigida to be a money making machine whereas the [present partners] just want the alumina so that they can make money on downstream products," Mr Fofana said.

Meanwhile, Guinea is talking to foreign companies interested in the country's iron ore potential.

## Iraq adds to pressure on oil

## MARKETS REPORT

By Robert Corzine and Kenneth Gooding

Oil prices fell yesterday on a mixture of bearish factors. The recent perception that there may be a global glut in the making was reinforced by a statement from Iraq, which said it could resume exports within weeks if it reached agreement with the UN on aid distribution.

In afternoon trading on London's International Petroleum Exchange the price of Brent Blend for January delivery fell to \$17.42 a barrel, seven cents above its low for the year of \$17.35, recorded in June. It later recovered to about \$17.60 a barrel, still well below Tuesday's close of \$17.99.

Some traders said the fall was exacerbated by institutional selling on the New York Mercantile Exchange, although one London trader said he saw little evidence of it. There was, however, some trade selling.

Oil has fallen steadily since the Organisation of Petroleum Exporting Countries agreed a 10 per cent rise in its production ceiling nearly two weeks ago.

Gold recovered from the 18-year low reached on Tuesday to close in London at \$285.35 an ounce, up \$3.20 from Tuesday's close. Dealers said sentiment remained extremely bearish, however.

In contrast, silver rose to a 24-year high of \$5.85 an ounce at the London daily fixing, after another sharp drop in New York. Commodity Exchange silver stocks to their lowest for 18 years. The fall was seen by some as evidence that a syndicate of banks and hedge funds, which has been building a big silver position, was tightening its grip on the market.

## Freeport to cut dividend

By Nikki Taft in Chicago

The recent fall in gold and copper prices is forcing Freeport Copper & Gold, the US mining company which controls the huge Grasberg copper and gold mine in Indonesia, to slash its dividend payout by more than \$100m annually to help preserve cash.

Freeport is the second big US mining company to make such a move. Last month, Newmont Gold, the largest of the US gold miners, announced that it would be cutting its quarterly dividend from 12 cents to 3 cents because of the sharply lower gold price.

Freeport, based in New Orleans, said yesterday that from the first quarter of next year it would reduce the dividend on its "A" and "B" common shares to 5 cents a quarter, or 20 cents annually, from the current 90 cents a year. It said it would not alter dividends on its preferred stock, but its common stock plunged sharply on the news, losing 9%, or more than 5 per cent, to \$18.4 in early trading.

Nevertheless, James Moffett, Freeport chairman, described the move as "prudent" in the light of the "currently low copper and

gold commodity prices and the outlook for the near term". He said that the move was designed to increase Freeport's financial flexibility and allow it to maintain its exploration programme.

According to Freeport's latest quarterly results, cash dividends on the common stock cost the company around \$135m in the first nine months of 1997, and it estimates that the dividend reduction will save it about \$30m each quarter.

Meanwhile, Freeport said that next year's estimated capital and exploration expenditures were under review, but analysts' estimates lie in the \$200m to \$300m range. Exploration expenditures are likely to be similar to this year's \$20m.

In the third quarter of 1997, Freeport reported a drop in net profits to \$36.6m, compared with \$46.1m a year earlier, in spite of a 17 per cent increase in copper sales volumes and a 25 per cent boost to gold volumes. It blamed lower gold and copper prices for the shortfall.

In the third quarter of this year, gold prices were about 16 per cent lower than in the comparable period of 1996. Copper prices have also been slipping in the latter half of this year.

## Newmont strikes lucky at Yanacocha

At today's depressed prices there are few gold mines in the world that can honestly say they are making a handsome profit. Peru's Minera Yanacocha, the largest and lowest-cost producer in Latin America, is one of them.

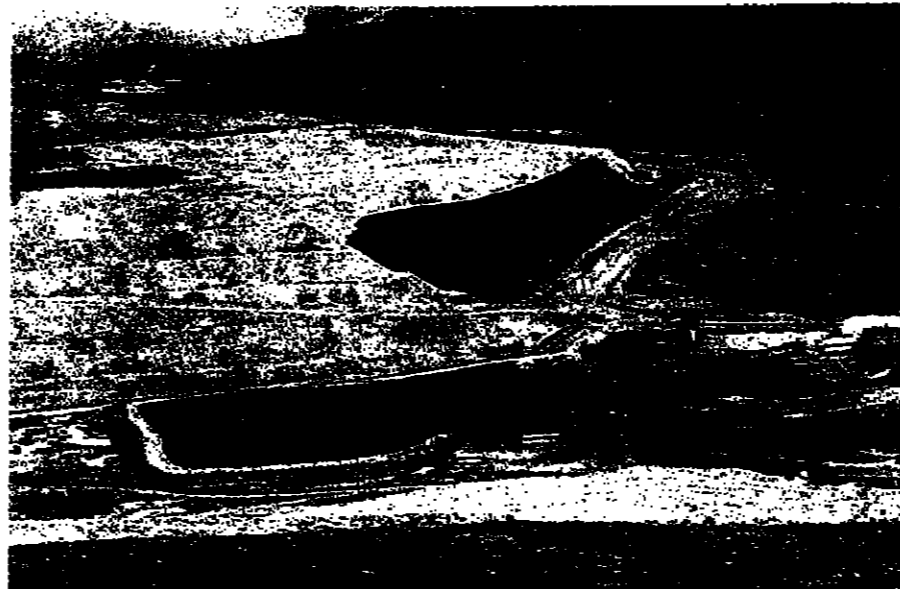
Expansion at Yanacocha - a joint venture between Newmont Mining of the US, and Buenavista, a long-established local company - is to continue. Last week company officials announced that production in 1997 would exceed 1m troy ounces and rise to some 1.15m ounces next year.

The 62,000-acre mine site is in Cajamarca, one of Peru's poorest regions, and investment has totalled more than \$270m to date.

The gold in Yanacocha is disseminated - spread through the rock as opposed to lying in seams. This pre-empts the need for expensive crushing of ore. Crumbling rock is simply scooped up and deposited on leach pads - areas where it is spread out and treated with cyanide to remove the gold.

Cash costs are currently less than \$100 an ounce, total costs including financing not more than \$150. The company is confident it will be profitable with gold prices at \$300 an ounce. On Tuesday gold fell to \$283.25, its lowest level for 18 years.

By next year, the mine site will have a total of five pits,



Yanacocha's leach pads pre-empt the need for expensive crushing of gold ore

three leach pads and two processing plants. A new processing plant comes on stream this month and a \$100m investment is expected next year, primarily in expanding leach pads.

Yanacocha is very important to Newmont. It has been fighting a long legal battle with Normandy Mining to prevent the Australian company from taking a stake in the mine after it bought BRGM of France, one of the original Yanacocha partners. Now Newmont is waiting for a Peruvian court ruling which it hopes will

confirm that it has a 51 per cent controlling stake.

That importance was underlined last month when the company announced that Lima was to become the headquarters of Newmont Gold Company - its South American exploration operations. The company, 94 per cent owned by Newmont Mining, is the world's second-largest gold producer.

"Peru provides a great base of operation," says Ronald Cambre, chairman of Newmont Mining. Peru's "stable economic and political environment" were the

chief factors in the board decision. Newmont has registered claims to a further 1.3m acres of mineral-bearing land in Peru.

But Yanacocha will remain the company's most significant South American investment for some time.

"The upside potential of Yanacocha still looks very great," says Thomas Conway, general manager of Yanacocha. He says four possible deposits have yet to be thoroughly explored. "Some results on test drillings of these will be announced next July and

our production plans may then change," he adds.

Back in August 1992, when the Newmont board threw its hat into the Peruvian ring it looked a bold decision. Peru was applying a harsh economic stabilisation programme to curb hyperinflation and terrorism was rampant. In spite of the problems, Yanacocha was pouring its first gold within 13 months and had not stopped expanding since.

But the investment has not been just in mining. "Newmont's president promised that, since we were extracting something irretrievable from Peru, we would put something back," says Mr Conway. "That gave rise to our social programme."

Yanacocha drew a 20km circle round the mine development and helps people in that area. It is working with a variety of government and charity organisations in health, education and electrification. The company has built 10 schools, a college, medical posts, a hospital and several drinking water systems.

"Social programmes are as important as care of the environment," says Mr Conway. "Social responsibility is a pre-requisite for mining here. You must have a workforce and a population that reasonably supports you."

Sally Bowen

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY (\$ per tonne)

	Cash	3 mths
Close	1559-59	1579-80
Previous	1553-54.5	1574-5-75.0
High/Low	1587/1575	1587/1575
AM Official	1554.5-55.0	1575-75.5
Kerb close	1577-78	1577-78
Open int.	260,410	
Total daily turnover	78,822	

ALUMINIUM ALLOY (\$ per tonne)

	Close	Previous
High/Low	1410-20	1430-40
AM Official	1417-22	1440-42
Kerb close	1450/1431	
Open int.	1408-13	1431-32
Total daily turnover	1,435-40	

LEAD (\$ per tonne)

	Close	Previous
High/Low	517.5-8.5	534-5
AM Official	516.5-17.5	543-5
Kerb close	515.5-13.5	529-30
Open int.	32,384	
Total daily turnover	7,535	

NICKEL (\$ per tonne)

	Close	Previous
High/Low	6085-75	6160-70
AM Official	5975-80	6070-75
Kerb close	6050-50	6050-50
Open int.	59,815	
Total daily turnover	21,387	

ZINC (\$ per tonne)

	Close	Previous
High/Low	5480-90	5380-90
AM Official	5395-500	5400-55
Kerb close	5450/5300	5405-10
Open int.	14,862	
Total daily turnover	7,187	

ZINC, special high grade (\$ per tonne)

	Close	Previous
High/Low	1125-26	1147-47.5
AM Official	1099-101	1122-24
Kerb close	1104-05	1113-130
Open int.	1184-85	
Total daily turnover	82,907	

COPPER, grade A (\$ per tonne)

	Close	Previous
High/Low	1787-88	1817-18
AM Official	1774-75	1804-05
Kerb close	1828/1803	
Open int.	1779-80	1808-0-0.5
Total daily turnover	159,817	

LME ALUMINIUM 25% rate 1.9470

LME Closing 2% rate 1.9855

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## PRECIOUS METALS CONTINUED

GOLD COMEX (100 Troy oz; \$ per tonne)

	Sett. Day's	High	Low	Vol	Open
Dec	286.5	+3.8	286.5	284.2	455
Jan	287.5	+3.8	287.5	284.7	977
Feb	288.5	+3.7	288.5	284.4	40,871
Mar	290.4	+3.7	290.4	286.3	1,003
Apr	292.4	+3.7	292.4	288.4	1,707
May	294.5	+3.7	294.5	290.7	530
Jun	296.5	+3.7	296.5	293.0	5,531
Jul	298.5	+3.7	298.5	295.3	18,828
Aug	300.5	+3.7	300.5	297.6	48,615
Sep	302.5	+3.7	302.5	299.9	88,298
Oct	304.5	+3.7	304.5	302.2	136,587
Nov	306.5	+3.7	306.5	304.5	182,908
Dec	308.5	+3.7	308.5	306.8	232,154
Jan	310.5	+3.7	310.5	309.1	282,401
Feb	312.5	+3.7	312.5	311.4	332,650
Mar	314.5	+3.7	314.5	313.7	382,900
Apr	316.5	+3.7	316.5	316.0	433,150
May	318.5	+3.7	318.5	318.3	483,400
Jun	320.5	+3.7	320.5	320.6	533,650
Jul	322.5	+3.7	322.5	322.7	583,900
Aug	324.5	+3.7	324.5	324.8	634,150
Sep	326.5	+3.7	326.5	326.9	684,400
Oct	328.5	+3.7	328.5	328.9	734,650
Nov	330.5	+3.7	330.5	331.2	784,900
Dec	332.5	+3.7	332.5	333.5	835,150
Jan	334.5	+3.7	334.5	335.8	885,400
Feb	336.5	+3.7	336.5	338.1	935,650
Mar	338.5	+3.7	338.5	340.4	985,900
Apr	340.5	+3.7	340.5	342.7	1,036,150
May	342.5	+3.7	342.5	345.0	1,086,400
Jun	344.5	+3.7	344.5	347.3	1,136,65



**FT MANAGED FUNDS SERVICE**

● ET Cityline Unit Trust Prices are available over the telephone. Call the ET Cityline Help Desk on 1-44 171 873 4378 for more details.

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## WORLD STOCK MARKETS

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## Emerging markets SEO inevitable, influence

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

REGIONAL AND NATIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY DECEMBER 9 1997										MONDAY DECEMBER 8 1997										DOLLAR INDEX		Year ago (approx)
	US Dollar Index	Day's Change %	Point	Sterling Index	Yen Index	DM Index	Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Point	Sterling Index	Yen Index	DM Index	Currency Index	52 week High	52 week Low	ago	ago				
Australia (74)	200.84	-0.8	181.04	164.97	187.48	300.40			3.76	202.76	182.48	178.37	188.52	200.84	243.87	210.04		216.25					
Austria (22)	159.68	1.2	172.71	157.37	178.85	178.74	1.8	1.90	198.40	170.81	178.31	184.31	178.08	178.98	178.98	178.98		173.14					
Belgium (27)	254.33	-0.1	254.33	254.33	254.33	254.33	0.0	0.00	254.33	254.33	254.33	254.33	254.33	254.33	254.33	254.33		254.33					
Denmark (22)	216.18	-0.3	194.75	177.48	201.68	222.68	-0.4	1.77	216.18	195.18	178.03	201.68	222.42	222.68	222.68	222.68		194.75					
Finland (22)	232.24	-0.2	392.14	307.37	408.08	404.30	0.1	1.27	438.08	392.14	307.37	408.08	404.30	404.30	404.30	404.30		392.14					
France (22)	286.53	-1.8	286.53	286.53	286.53	286.53	0.0	0.00	286.53	286.53	286.53	286.53	286.53	286.53	286.53	286.53		286.53					
Germany (33)	227.82	0.5	216.85	198.98	220.42	222.62	0.9	2.40	235.08	216.85	198.98	220.42	222.68	222.68	222.68	222.68		216.85					
Italy (22)	380.50	-2.1	343.08	312.65	388.26	312.65	0.0	0.00	388.26	343.08	312.65	388.26	312.65	312.65	312.65	312.65		343.08					
Japan (22)	145.81	-0.4	145.81	145.81	145.81	145.81	0.0	0.00	145.81	145.81	145.81	145.81	145.81	145.81	145.81	145.81		145.81					
South Korea (22)	207.82	-1.1	368.01	336.24	382.13	397.80	2.5	1.84	404.81	368.01	336.24	382.13	397.80	397.80	397.80	397.80		336.24					
Spain (22)	110.85	-0.1	98.88	91.01	103.43	145.41	0.2	1.68	110.89	98.88	91.01	103.20	145.14	115.27	79.11	80.22		91.01					
Sweden (22)	100.67	-0.2	100.67	100.67	100.67	100.67	0.0	0.00	100.67	100.67	100.67	100.67	100.67	100.67	100.67	100.67		100.67					
Taiwan (22)	191.17	-0.2	191.17	191.17	191.17	191.17	0.0	0.00	191.17	191.17	191.17	191.17	191.17	191.17	191.17	191.17		191.17					
Thailand (22)	172.15	0.0	172.15	172.15	172.15	172.15	0.0	0.00	172.15	172.15	172.15	172.15	172.15	172.15	172.15	172.15		172.15					
United Kingdom (214)	2142.80	-0.4	371.92	338.93	385.14	381.05	-0.1	2.20	414.98	372.95	342.13	385.45	381.34	384.67	313.78	319.08		338.93					
New Zealand (14)	82.77	0.1	74.58	67.53	77.23	73.57	0.4	0.20	82.75	74.53	68.21	75.94	73.27	80.47	75.07	72.47		67.53					
Norway (33)	384.16	-0.1	301.05	274.98	311.31	329.70	0.5	2.20	344.98	301.05	274.98	311.31	329.70	329.70	329.70	329.70		311.31					
Philippines (22)	94.72	-1.1	83.58	77.78	85.18	185.89	2.4	1.26	92.54	83.58	77.78	85.18	185.89	185.89	185.89	185.89		77.78					
Portugal (22)	36.82	-0.1	235.28	214.94	244.27	186.04	-0.6	1.65	284.82	235.28	214.94	244.27	186.04	186.04	186.04	186.04		214.94					
South Africa (163)	282.81	0.1	238.20	215.59	245.01	282.23	0.3	0.98	262.45	238.20	215.59	244.02	282.23	282.23	282.23	282.23		215.59					
Spain (33)	273.12	0.6	240.07	207.77	234.61	214.69	0.4	2.04	244.07	240.07	207.77	234.61	214.69	214.69	214.69	214.69		207.77					
Sweden (49)	49.58	-0.1	49.58	49.58	49.58	49.58	0.0	0.00	49.58	49.58	49.58	49.58	49.58	49.58	49.58	49.58		49.58					
Switzerland (18)	330.53	-0.8	297.79	271.35	308.98	298.65	-0.1	1.12	332.47	297.80	274.38	308.12	298.45	332.47	331.89	331.89		271.35					
Taiwan (22)	24.83	-0.1	31.23	29.40	28.19	40.48	0.8	6.86	25.84	31.23	29.40	28.19	40.89	29.20	29.22	29.20		28.19					
United Kingdom (214)	2332.96	-0.3	300.88	274.14	311.33	300.89	0.0	0.00	300.88	300.88	300.88	300.88	300.88	300.88	300.88	300.88		300.88					
USA (342)	397.90	-0.7	397.90	397.90	397.90	397.90	0.0	1.56	403.73	397.90	397.90	397.90	397.90	397.90	397.90	397.90		397.90					
Americas (281)	391.47	-0.7	325.89	286.74	337.63	305.00	-0.7	1.57	369.93	327.46	300.40	336.43	307.15	305.75	268.24	276.05		286.74					
Americas (705)	229.48	-0.9	229.48	229.48	229.48	229.48	-0.1	2.35	280.19	229.48	229.48	229.48	229.48	229.48	229.48	229.48		229.48					
Europe (171)	422.96	-0.8	381.07	347.23	394.62	472.45	-0.6	1.76	427.03	384.17	352.42	387.04	470.74	464.83	343.30	351.56		347.23					
Europe (1673)	112.10	1.7	100.99	92.03	104.58	92.73	1.5	1.60	110.18	99.12	90.88	102.44	91.41	188.90	107.30	155.20		92.03					
Europe-Pacific (1573)	185.50	0.3	167.13	162.28	173.07	160.23	0.4	2.09	184.45	165.89	156.55	176.87	164.50	208.12	173.55	165.86		162.28					
North America (764)	398.33	-0.7	398.33	398.33	398.33	398.33	0.0	1.57	398.33	398.33	398.33	398.33	398.33	398.33	398.33	398.33		398.33					
South America (22)	21.24	-0.4	201.78	171.18	240.00	203.07	-0.1	3.82	258.29	232.36	213.26	240.15	250.26	267.07	202.83	204.82		171.18					
Asia (22)	21.82	-1.8	182.41	175.33	198.25	210.00	-1.5	8.89	217.77	195.19	179.25	202.47	213.71	320.85	190.90	510.17		175.33					
Asia (22)	30.13	-0.3	170.35	155.41	178.81	168.84	0.4	2.07	188.76	169.81	155.73	175.50	186.22	212.89	178.94	188.12		155.41					
World Ex. UK (2266)	248.13	-0.7	248.13	248.13	248.13	248.13	0.0	1.57	248.13	248.13	248.13	248.13	248.13	248.13	248.13	248.13		248.13					
World Ex. Japan (1800)	334.37	-0.8	301.25	274.50	311.06	268.10	-0.5	1.93	336.83	302.75	275.73	312.89	325.82	344.36	266.91	271.03		274.50					
World Index (3442)	206.94	-0.2	206.94	206.94	206.94	206.94	-0.2	1.81	256.91	231.12	212.02	238.87	233.93	268.47	216.61	224.87		206.94					

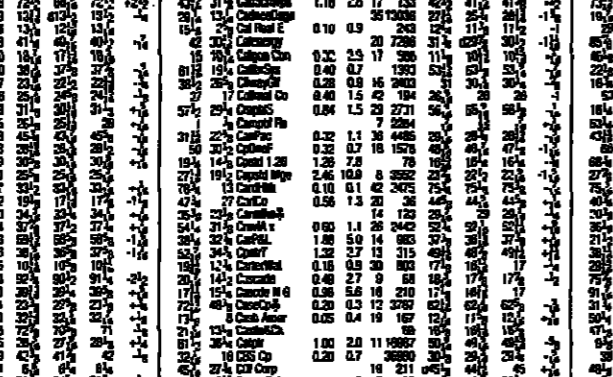
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Emerging markets	Amcor	8.75	-0.09	8.09	8.14	7.1	Star	2.24	3.88	1.95	5.5	18.7	Amgen	31.58	-1.05	30	1.9	8.8	
	Ashdon	1.38	-0.04	2.28	1.28	4.4	22.7						ParoPhy	7.30	-1.10	40.25	7.25	15.8	
	AMZ BK	10.80	-1.0	11.58	7.46	4.5	13.5	Telcel	2.60	3.60	2.27	3.0	14.0 <td>Ergo</td> <td>4.34</td> <td>-0.08</td> <td>9.30</td> <td>4.20</td> <td>25.5</td>	Ergo	4.34	-0.08	9.30	4.20	25.5
								Timeco	3	3.50	2.78	4.0	13.5	Endo	4.24				

[illegible]

Rollmans	7.80	-20	8.20	6.70	10.0	21.8525	BC Tel x	44.8	+2.4	44.8	27.06	Previous high price 10/26/01 at 44.17 7/12/02	
Sandvik	9.30	-0.08	7.47	4.40	4.0	15.9	1176680	BCE	47.75	+4	48.15	30.0	Previous high price +4 181 770 0770 or for your account to +4 181 770 3820.
Gabriel	2.40	—	2.87	2.19	0.1	—	39790	BCE Mob	36.95	-4.95	62	36.95	

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# GLOBAL EQUITY MARKETS

## US INDICES

Index	Dec 10	Dec 9	Dec 8	1997 High	1997 Low	Since completion
Dow Jones	8946.56	8910.84	8949.13	8982.31	8871.85	41.22
S&P 500	104.46	104.54	104.68	104.86	103.85	0.98
NASDAQ	3340.50	3352.47	3315.54	3382.27	3222.07	159.20
NYSE	258.52	258.87	258.86	261.10	256.47	4.63
DJ Ind. Div. Yield	1.41	1.42	1.41	1.42	1.40	0.02
Daily High 911.10	911.10	911.10	911.10	911.10	911.10	0.00
Daily Low 897.77	897.77	897.77	897.77	897.77	897.77	0.00
Standard and Poor's	97.78	98.27	98.73	99.73	97.01	4.46
Industrials	1120.02	1127.70	1140.07	1145.82	1105.42	40.40
Technology	123.38	123.85	123.78	124.82	122.82	2.00
NYSE Comp.	510.88	513.44	514.31	514.31	504.74	9.57
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NASDAQ Comp.	1620.55	1615.54	1623.86	1635.00	1570.00	65.00
Russell 2000	438.16	442.03	438.06	445.21	433.55	1.66

## INDEX FUTURES

Index	Open	Settle	Change	High	Low	Est. vol.	Open int.
Dow Jones Ind. Div. Yield	1.41	1.42	0.01	1.42	1.40	2.05	281,216
S&P 500	104.46	104.54	0.08	104.68	104.24	26,284	128,478
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## WORLD MARKETS AT A GLANCE

Country	Index	Dec 10	Dec 9	Dec 8	1997 High	1997 Low	% YTD	% YTD
Argentina	Buenos Aires	2297.20	2292.76	2297.20	2311.00	2271.00	3.21	19.3
Australia	All Ordinaries	2554.7	2552.8	2552.8	2570.00	2520.00	1.53	18.6
Canada	S&P 500	104.46	104.54	104.68	104.86	103.85	0.98	0.0
France	CAC 40	4112.27	4104.81	4122.36	4158.00	4058.00	0.91	1.0
Germany	DAX	4112.27	4104.81	4122.36	4158.00	4058.00	0.91	1.0
Italy	FTSE 100	5107.1	5117.1	5174.1	5258.00	5058.00	5.08	9.9
Japan	Nikkei 225	14782.16	14685.51	14731.57	15022.50	13815.00	8.25	1.0
UK	FTSE 100	5107.1	5117.1	5174.1	5258.00	5058.00	5.08	9.9
US	Dow Jones	8946.56	8910.84	8949.13	8982.31	8871.85	41.22	0.0
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## WORLD MARKETS AT A GLANCE

c	Dec 8	1997	1997	% Ytd	% PE
366.75	7402.77	6948.90	4266.59	81	88
the Bank of Japan in 1999 provided a stable index group may be limited.					
51.59	9483.19	4690.02	3263.24	21	21
18.73	837.73	9432.56	650.80	1012	88
with little fluctuations among the estimates.					
55.59	425.61	740.85	87	308.88	27
regional volatility and volatility capital changed the market base.					
400.03	655.70	912	275.89	21	2.17
the market's price level and market index.					
71.72	300.00	317.76	274.15	21	88
European markets.					
33	262.80	26.37	155.24	21	1.92
58.41	1088.80	22919	88.42	21	1.92
70.60	1088.80	22919	1048.89	21	2.1
the Bank of Japan in 2000 set a new target for foreign assets.					
16.51	101.51	269.87	166	1088.35	1471
33.85	232.85	267	287	1011	4.22
10.37	122.31	1500.25	177.82	141	1.19
35.52	128.95	2016	128.95	812	1.19
the Bank of Japan and the government's economic package may be weak.					
17.13	--	--	--	--	--
53.15	676.47	1757.52	555.12	2571	2.84
the market, helped to carry the market higher.					
1.57	8110.35	8888.09	210.10	21	1.19
in the Mid East Stock market index, which was very high.					
34.53	888.75	224	471.50	21	1.19
the market, but there was little buying interest.					
28.57	108.65	1194.48	78	780.00	21
22.8	65.1	104.86	75	720.00	21
after currencies and stock markets, as well as a smaller index.					
20.08	2402.49	2655.48	210.21	2810	2810
including an otherwise declining day.					
0.65	5889.29	--	--	--	--
27.21	2122.05	2888.89	2210	1838.69	21
the price trend on conventional stock exchange.					
1.51	100.37	2962.88	2210	1341.21	771
economic conditions continued to be stable.					
1.31	2289.40	107	428.28	21	88
0.50	1857.21	3442.80	32	1740.18	2810
in the past eight months.					
				12	11.9

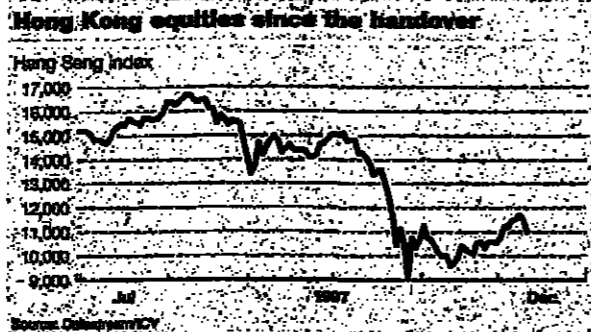
# Eastern declines cause 'rest of world' jitters

## WORLD OVERVIEW

After a period when the markets seemed willing to turn a blind eye to the Asian crisis, a round of declines on far eastern bourses had a knock-on effect in the rest of the world yesterday, writes Philip Coggan.

With the Japanese financial package being postponed, there was little in the way of positive news from Tokyo to stabilise the markets, and investors in any case seemed to have second thoughts about the merits of the purported plan to issue ¥10tr worth of bonds.

Korea's stock market edged higher, with the gov-



Source: DataStream/FT

ernment bringing forward measures to encourage foreign investment. However, the won took another battering and the suspension of five merchant banks exacerbated the air of crisis. This

took its toll on Hong Kong where, after a steady period, selling pressure on the currency resumed. The Hang Seng index shed 4 per cent. The ricochet effect of Asia's problems was seen as

a weak Wall Street close on Tuesday was blamed on a fall in technology stocks following a profits warning at Oracle. The US software company blamed the turmoil in Asia for its earnings downturn, and tech shares were still being affected by its comments yesterday.

Europe was also hit by a downturn in the dollar and by another fall on Wall Street in early trading, as J.P. Morgan blamed unsettled stock markets for lower earnings in the fourth quarter. This all combined to send the FTSE 100 index down 1.2 per cent.

Analysts continued their efforts to determine how the

Asian crisis would affect corporate earnings in the rest of the world.

A note from the team at Dresdner Kleinwort Benson said: "Exchange rate devaluations in east Asia have significantly reduced the prices at which a number of east Asian countries are able to sell into world markets over the space of only a few months. We believe that South Korea and Taiwan pose the greatest threat to the greatest number of European companies."

However, Dresdner said that the split of companies affected would not be strictly on sector lines. The companies that will suffer

will have characteristics such as high transport costs, commodity products, weak brands and high labour costs.

Some commentators are suspicious of the recent revival in world markets. Edmond Warner, global strategist at NatWest Markets, said: "Year-end liquidity is playing havoc with a rational assessment of equities. Fund managers are finding themselves with too much hard cash. Investors should take care not to get drawn into these temporary year-end rallies, especially not in Asia."

London market, Page 28

## EMERGING MARKET FOCUS

# Drinks could be on Israeli banks

Israel's business community and policy-makers toasted in Tel Aviv this week the state's sale of Bank Hapoalim, the country's biggest, to a group of private investors. But a conflict is brewing behind the celebrations.

Bank Hapoalim is resisting a government initiative aimed at breaking big banks' control over provident funds, popular long-term savings funds worth about \$15.5bn (\$25.5bn). Through its control of about 60 per cent of these funds, Hapoalim maintains a tight grip on Israel's capital markets.

"When the three biggest banks control most of the liquidity in the equity and fixed income markets through provident and mutual funds, you end up with a small number of decision-makers and a serious concentration problem," said Guy Rolnik, a markets commentator from the Israeli daily Ha'aretz. "There is an acute conflict of interest since the banks are both lenders and underwriters and have many vested interests."

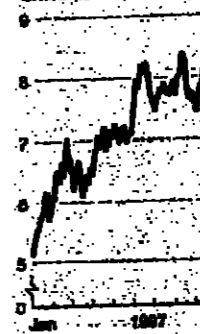
The consequences of such concentration were felt during a crisis in the Israeli bond market last year that was blamed on huge redemptions of provident funds. Reducing bank control over these funds would boost liquidity, say analysts.

Last year, a bill designed to build Chinese walls between the banks and their funds passed its first of three parliamentary readings. The nub of the proposal was to force the banks to relinquish control of provident fund investment boards. The bill has gone back to the drawing board.

Michael Kleiner, chairman of the Knesset [parliament] subcommittee on capital markets, who is responsible for pushing the bill through, says building Chinese walls is insuffi-

## Bank Hapoalim

Share price (sheqels)



Source: DataStream/FT

cient. "I'm not excited about the proposal," he said. "Fund owners must be responsible. And to be responsible, you need control. The funds should be separated completely from the banks or else we must prevent conflicts of interest using stricter measures."

David Tadmor, Israel's new antitrust commissioner, has appealed to the government to strip the banks of provident funds.

Government officials say spinning-off the funds is not realistic because there are not enough buyers to take over the sizeable funds. Instead, they want to expand on the original bill to neutralise the banks' influence. Proposals under discussion would institutionalise supervision over administrative fees charged by the funds and limit the amount bank-owned funds may invest through their own banks.

Fearful of losing a big source of profits, Bank Hapoalim has been lobbying hard to prevent any legislation with bite from being pushed through the Knesset. This perhaps, is the most potent sign that the government is serious about reform.

If reforms are indeed near, the Israeli public and market players may soon be able to join the privatisation festivities.

Avi Machlis

# High-tech stocks suffer at midsession

## AMERICAS

The Dow Jones Industrial Average dipped below the 8,000 point level in morning trading as stocks continued to be battered by bad news from Asia, writes John Authers in New York.

High-technology companies were particularly badly hit, as the repercussions of Oracle's disappointing earnings statement, announced late on Monday, continued to be felt. Sentiment was further harmed in mid-morning by a profits warning from J.P. Morgan, the only bank stock in the Dow's 30 constituents. It said it had been adversely affected by trading losses during the fourth quarter, largely as a result of the Asian currency crisis, and would not match its earlier expectations.

By midsession, the Dow was trading about 100 points below its opening, off 97.47 at 7,952.19. The broader S&P 500 index was down 1.1 per cent at 964.84, while the Nasdaq Composite, which includes the largest technology companies, was off almost 2 per cent, down 31.02 at 1,689.53.

By midday, J.P. Morgan's shares had slipped 3.2 per cent, off \$37 at \$31.9, in spite of its announcement, at the same time as the profits warning, of a share buy-back. Other "money centre" banks with strong international exposure were also hit, with Chase Manhattan off 2.8 per cent and Citicorp off 3.9 per cent.

Technology stocks suffered most, however, with worries about Asia forcing sharp reductions for all the

leading stocks in the sector. By midday, Bay Networks was down 10.9 per cent, while Compaq and Dell, both large computer manufacturers, were off 5.7 and 5.3 per cent respectively. Intel, the largest semiconductor manufacturer, was down 3.2% at 37.34.

Among the 30 Dow constituents, International Business Machines was the worst affected, off 3.9 per cent or \$44 at \$1,067.

Bad news afflicted other sectors. Shares in Corning, the manufacturer, fell 2.8% at \$24.75 after it announced that its agreement to sell its consumer products division had fallen through.

Speculation that Merrill Lynch was backing off from negotiations to buy Hambrecht & Quist, the largest independent west coast investment bank, because of speculation about the high price it was preparing to pay, saw the latter's shares fall sharply - down 3.4% or 8.7 per cent at \$38.

TORONTO moved lower, hit by the weak opening on Wall Street and profit-taking among the heavyweight banks. The 300 composite index was off 25.09 at 6,741.90 at noon.

After recent steady gains, the banks sector fell back and tech was a downside factor too. Newbridge Networks, off \$94.55 on Tuesday, fell a further \$38.85 to \$55.70 yesterday morning following the overnight shake-out for US computer software stocks.

Royal Bank lost 20 cents to \$379.95 and Bank of Montreal came off 20 cents to \$366.80.

# Markets track US lower

Latin American centres followed Wall Street lower in morning trading, notably Brazil where equities fell by almost 5 per cent during the opening session.

SAO PAULO fell steeply with the lack of volume failing to steady the impact of what brokers described as relatively light selling.

Most of the downside action was ascribed to Wall Street's weak opening.

Index heavyweight Telebras led the way down, sliding 5.8 per cent to \$315.40.

At midsession, the Bov-

espa index of 51 most traded shares was off 487 or 4.9 per cent at 9,553.

MEXICO CITY chose to move lower after two sessions of flat trading. "There is no obvious rush to sell, but no one can argue with the current trend in the US," said one broker.

At midsession, the IPC index was down 82.77 or 1.6 per cent at 5,029.10.

SANTIAGO was also in bleak mood. The midsession calculation on the IPSA index showed a loss of 1.46 or 1.8 per cent to 113.57.

# Hong Kong dips on weak demand

## ASIA PACIFIC

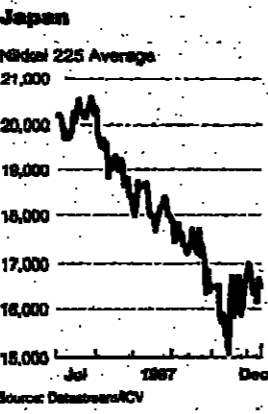
A lack of institutional demand left HONG KONG sharply lower for a second straight day and brokers forecast that a more optimistic tone was unlikely to emerge before the end of the year. The Hang Seng index finished 468.25 down at its low for the day of 11,022 for a two-day fall of 6 per cent.

The commercial and industrial sector led blue chips down but China plays were the market's worst performers.

Index heavyweight Hutchison Whampoa dropped HK\$2.75 to HK\$51 in heavy trading of HK\$503.7m. The red chip Hang Seng China Affiliated Corporations index fell 5.8 per cent while the Hang Seng China Enterprise index of 39 H-shares stumbled 6.3 per cent lower.

TOKYO gave up some of the previous day's 3.4 per cent gains in light turnover. The Nikkei 225 average ended 208.39 or 1.3 per cent lower at 16,478.12 after trading between 16,408.89 and 16,676.12.

Having been boosted on Tuesday by the prospect of



Source: DataStream/FT

injections of public funds into the economy and troubled financial industries, sentiment wavered yesterday and shares lost ground in light selling.

Brokers said the plans to stabilise the financial system by issuing ¥10,000bn of government bonds was seen as something of a two-edged sword. Moreover, worries before next week's economic package and "tankan" survey had reappeared.

The broad-based TOPIX index came off 6.91 at 1,241.16 while the Nikkei 300 gave up 1.47 at 2,473.81. In Tokyo's first-session volume

fell from 470m to 396m shares.

The most actively traded share was Long-Term Credit Bank of Japan, which added ¥39 at ¥260 with 19.8bn shares changing hands.

SEOUL struggled to make headway against a sharply deteriorating economic background: as the won tumbled to record lows the government suspended five more troubled merchant banks.

The composite index finished 11.85 higher at 399.85, mainly because the finance ministry brought forward measures raising to 50 per cent the foreign investment ceiling on domestic stocks. The measures, which will now come into effect today, had been planned to start on December 15.

However, many analysts dismissed the move as a desperation measure and said that foreign investors were unlikely to buy heavily into South Korea's sick economy.

Local investors continued to buy stocks seen as benefiting from greater foreign investment. Samsung Electronics ended 3,100 won higher at 42,200 won, while Pohang Iron & Steel rose 3,700 won to 50,000 won.

TAIPEI pushed higher, with the weighted index adding 170.06 or 2 per cent to 8,505.55. Brokers said buying by both local and foreign institutions was heavy. The index of financial shares rose almost 4 per cent.

Cathay Life surged the daily 7 per cent limit, gaining T\$9.50 to T\$149.5. Shin Kong Life and Taipei Bank were also limit up, rising T\$6.50 to T\$100.5 and T\$3.40 to T\$33 respectively.

JAKARTA was hit by profit-taking, with the composite index reversing four straight days of gains with a fall of 5.56 or 2.3 per cent to 415.94.

Index heavyweights Telkom and Astra led the downturn. The former came off Rp150 at Rp3,075 in 17m shares traded and Astra retreated Rp175 to Rp2,150.

SINGAPORE was lower, led down by a tumble in Fraser & Neave as investors took profits after the share's sharp rise from the recent low of \$86.55.

The soft drinks group dropped 50 cents to \$89.15 in active volume of 2.2m, and the Straits Times Industrial index lost 30.70 or 1.8 per cent at 1,703.72.

## FTSE Actuaries Share Indices

December 10  
National & Regional  
Markets

Index	End	Day's %	Change	Vol	Net adj	Total vol
FTSE Europe 300	976.84	-1.15	-11.37	2.30	0.00	983.61
FTSE Europe 100	2228.06	-1.17	-26.89	-	-	-
FTSE Europe 300 Region						
300 UK	980.25	-1.19	-11.88	3.18	0.00	1006.16
300 FR	980.08	-1.13	-11.03	1.70	0.00	971.43
300 Germany	958.50	-1.22	-22.80	2.80	0.00	960.06
300 Benelux	991.81	-1.23	-10.37	2.51	0.00	1001.29
FTSE Europe 300 Economic Group						
Resources	940.25	-0.87	-8.18	2.82	0.00	953.84
General Industries	972.28	-1.18	-10.18	2.18	0.00	974.44
Consumer Goods	984.55	-1.04	-10.15	1.39	0.00	974.32
Services	975.74	-1.72	-17.11	2.39	0.00	982.42
Utilities	1006.08	-0.93	-8.49	2.87	0.00	1014.95
Financials	1004.80	-0.65	-4.72	2.22	0.00	1004.49

See also 1997: Most Important News Events and 1997: Most Important News Events. FTSE and FTSE Actuaries are registered trademarks of the London Stock Exchange and the Financial Times. "Country" is a registered trademark of the London Stock Exchange. FTSE Actuaries is a registered trademark of FTSE Actuaries Limited. All rights reserved. Solutions provided by FTSE Actuaries. Data provided by FTSE Actuaries.

Schickedanz group, which already holds a 20 per cent stake in the retailer, wanted to gain a majority holding. Karstadt rejected the speculation as "unsubstantiated".

ZURICH turned its attention from the banking sector to the chemicals and pharmaceuticals companies and the SMI index pulled back after two days at record levels to close 46.6 lower at 6,056.8.

Ciba Specialty Chemicals and Clariant both put in early spurts on a retelling of old rumours that the companies were likely takeover targets.

Ciba, up at a high of Sfr179 early in the day, turned back to close Sfr2 weaker at Sfr170. Clariant held on to Sfr29 of its advance to close at Sfr119.

Among the banks, UBS and SBC gave up some of the sharp gains racked up in the previous two sessions after they revealed their merger plans on Monday. UBS shares gave up Sfr2.20 to Sfr2.16 and SBC lost Sfr6 to Sfr489.50.

In the insurance sector, where the bank merger set off rumours about imminent restructuring moves, Swiss Re added Sfr63 to Sfr2,460, with Mr Martin Ebner's BZ Bank said to be a buyer.

AMSTERDAM came down in line with Frankfurt, losing 13.70 to 910.30 on the AEX index.

Ahold and Hoogovens both fell more than 4 per cent, with the retailer slipping F12.30 to F16.20 and Hoogovens retreating F14.10 to F19.40. KLM ran in clear profit-taking, slipping F13.80 to F17.40 after two days of substantial gains on the back of pan-European alliance talk.

MILAN slipped back as Tuesday's rally in banking stocks went into reverse. Talk of foreign selling hit Credito Italiano, which ended L215 lower at L5,108. BCI was L48 lower at L5,298. Led by the banks sector, the

## European shares

December 10  
National & Regional  
Markets

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### Focused on the growing opportunities in Brazil

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Advised Bradesco Seguros on the R\$501 million acquisition of Uniao de Seguros

Advised STET International, in consortium with Vionia, Bradesco and Globosat, on the R\$250 million acquisition of the concession for Band B cellular telephone services in Area 9

Advised CVRD on the acquisition of the RFFSA central-eastern railway for R\$318 million

#### Privatisations and restructurings

Advised the Government of the State of Bahia on the valuation, restructuring and sale of COELBA for R\$1.73 billion

Advised, through the ITU, the Brazilian Ministry of Communications on the restructuring of the telecommunications sector in preparation for privatisation

Advised the Government of the State of Rio Grande do Sul on the restructuring and valuation of CEEE and the sale of the resulting distribution companies for R\$3.1 billion

Advised the Federal Government, through BNDES, on the restructuring, valuation and sale of Eletrosul and Furnas

#### International equity offerings

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Joint Global Coordinator for the US\$130 million international equity issue for Celcel

#### Project Finance

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Dresdner Kleinwort Benson is the natural choice for excellence in financial services in Brazil. Our clients benefit from the global resources and focused expertise of the Dresdner Bank Group combined with a strong local presence.

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